DAWN OF MODERN FINANCE

IN INDIA

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V. G. KALE.

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BY

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PREFACE.

I have long contemplated writing a history of Indian finance and have devoted some attention to that subject. But varied preoccupations and engagements coming in the way, the idea did not materialise. When I had an opportunity, however, in last October, of delivering a short series of lectures at the Benares Hindu University, in my capacity of Honorary University Professor of Economics, I selected "the beginnings of modern finance in India" as my theme, and the following pages are the outcome of those lectures, cast in a systematic and elaborate form. This book is, therefore, practically the first part of a larger work which I hope to be able one day to complete.

I venture to think that the book will prove useful to all those who would get initiated into the mysteries of the finances of India and wish to have a general knowledge of the evolution of the system. The review of the ancient, medieval and modern systems of Indian taxation which has been taken in the book, will make a good background for the exposition of the present financial position of the Central and the Provincial Governments that has been presented in the concluding Chapter. No problem involves more vital public

interests and bristles with more serious difficulties than that of national and provincial finance at the present juncture, and it is my humble hope that this book will render some assistance in its clear understanding, intelligent discussion and satisfactory solution. The book is expected, in fact, to be helpful as an Introduction to the study of Indian Finance.

FERGUSSON COLLEGE,
POONA,
1st January, 1922.

V. G. KALE.

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DAWN OF MODERN FINANCE.

CHAPTER I.

THE FIRST INDIAN BUDGET.

The financial situation in India looked gloomy—almost desperate—in 1860. The Mutiny had thrown a heavy load of debt on the shoulders of the country, and the interest charge alone amounted to £ 5 million a year, being about one-eighth of the normal income of the Government. The system of accounts, audit and of financial management generally, was unsatisfactory in the extreme; and though the President of the Board of Control, and since 1858, the Secretary of State for India, presented to Parliament each year a statement of the revenue and expenditure of India and there were regular debates thereon, there were no annual budgets placed before such Indian legislature as then existed and the people whom they intimately affected. The direct assumption of the government of this country by the Crown under the Act of 1858, had produced hardly any improvement in the administration of Indian affairs. It was merely a formal change,* and the financial management of India derived no benefit therefrom.

"I am sorry to say that I do not see the slightest probability, notwithstanding what took place last year, of any change for the better. The Right Hon. Gentleman the member for Radnor (Sir George Lewis) says that last year the Government of India was changed in form. The fact is, it was changed only in name. It was scarcely changed in form, and hitherto it has not been in the least changed in principle."—Mr. John Bright in the House of Commons on 7th March, 1859.

Complaints were constantly made by critics in Parliament about the incomplete and unsatisfactory nature of the accounts presented to it by the Secretary of State, the inconsistencies and discrepancies which marred their value and the lack of any regular and well-thought out policy in the managment of India's financial affairs. Military expenditure had enormously swollen owing to the large armies which had been maintained during and since the Mutiny, and there was no proper adjustment of and control over the expenditure of the Presidencies of Madras and Bombay. It was, therefore, thought desirable immediately to start a vigorous effort to evolve order out of the financial chaos and to place the Indian finances, which had been shattered by the Mutiny, on a sound basis.

Offering an exposition of the financial situation in India to the House of Commons on 1st August, 1859, Sir Charles Wood, Secretary of State for India, gave it as his opinion that the financial part of the Indian Government had always been unsound. He thought that it was a serious drawback that while in England, the Chancellor of the Exchequer, who had to meet the expenditure, had also to provide the ways and means, in India the department which provided money, had nothing to do with the one that spent it. Her Majesty's Government, therefore, decided to send out to this country some person well-versed in the financial system of the United Kingdom and acquainted with the British method of keeping accounts, to take charge of the financial department of the Government of India. Before this time, under the Charter Act

of 1833, the executive council of the Governor General consisted of three civilian members and a law member who was a barrister from Great Britain. Lord Macaulay had worthily filled this last position. Under the Charter Act of 1853, the Law Member, who had previously been an executive member only when the Council met for legislative purposes, became a full-fledged ordinary member, and in 1859, a temporary vacancy of this office was filled by the appointment of a financial member, an expert in the business of finance. By the Act of 1861 this innovation was recognised, and now there was a financial as well as a law member in the executive council of the Governor General.*

Mr. James Wilson, an able member of Parliament, who had, for several years, worked at the British Treasury, was induced to accept the office of Finance Member of the Government of India. Sir Charles Wood said of him that "no better man in this country (England) possessed the commercial and financial knowledge combined with the great parliamentary experience of his Right Honourable friend, or was so well qualified as he was, to attain the end in view namely, the improvement of the system of finances in India." Lord Ellenborough heartily supported the appointment of Mr. Wilson as the Chancellor of the Exchequer in India and remarked that he had himself entertained

*Before Lord Canning's time all subjects came up for decision before the whole Executive Council and responsibility for them was not fixed upon individual members. It was Lord Canning who introduced the portfolio system and assigned departments to different members.

the same design some thirty years ago, but the idea could not then be carried out. Mr. Wilson came to India towards the close of 1859 and immediately threw himself heart and soul into the very difficult work he had been entrusted with. He forthwith joined the Governor General, Lord Canning, who was touring in the country and went about from place to place to gain personal knowledge of men and things.

On 18th February, 1860, Mr. James Wilson, the first Indian Finance Member presented to the Legislative Council of India, the first Indian budget, viz. that for the year 1860-61. The Indian legislature was, before the passing of the Councils Act of 1861, an entirely official body, consisting of the Governor-General, the members of his Executive Council, the Chief Judge of the Supreme Court of Judicature at Calcutta and a puisne Judge and four representatives from the Provinces—Bengal, Bombay, Madras and the N. W. P. having one member each.* Before such a Council Mr. Wilson gave a lucid and an extremely frank account of recent financial developments and a thoroughly masterly exposition of the financial situation in India. He had been given full liberty to deal with the problem and was absolutely unfettered by any measures taken or contemplated by the Indian Government before his arrival in this country. It is no wonder if in spite of

* The Councillors so added to the Executive Council, were not "entitled to sit or vote in the said Council, except at meetings thereof for making laws and regulations". See Section 22 of the Charter Act of 1853.

all the efforts he had made to get into touch with the condition of the Indian people and the character of the problems that had to be solved, Mr. Wilson did not grasp the essentials of the situation which a longer residence in the country and a more intimate contact with the people alone would have enabled him to do. He, had, however, the advantage of a fresh mind and freedom from bias or prejudice, and his budget speech was a remarkable performance. It threw into relief his close acquaintance with the principles and practice of finance, betrayed the great pains he had taken to master the problem he had been specially sent out to tackle and discovered the anxiety he felt to place Indian finances permanently on a secure basis. He did not conceal from himself and others his conviction that the financial situation was alarming and that the immediate future was the reverse of reassuring. He, therefore, spared no pains to impress on the minds of one and all the urgent necessity of adopting prompt and adequate measures radically to cure the dangerous malady.

The picture Mr. Wilson presented to the gaze of the public, was indeed as dark as any picture could be. It shattered with a blow the pleasant illusion indulged by some in England that "the neck of our financial difficulties had been broken," and opened to the view the demon of financial depression in all its ugliness. A succession of deficits cast a gloom over the whole field of finance and it was deepened by the shadows of further dificits looming large on the horizon. The deficiency for the year 1859-60 was calculated to be £9,290,129; for the preceding year

it was £ 13,393,137; and for the year before that, viz. 1857-58, it was £7,864,222; while for 1860-61, it was feared, it would be no less than £ 6,500,000. Thus in four years, the expenditure would exceed the income by a sum of £ 37 millions. What was the position of the public debt? Just before the Mutiny commenced, at the end of the official year 1856-57,the capital of the public debt in India was £ 55,546,652, and in England it was £ 3,894,400, or a total of £ 59·44 millions, the interest charge on which amounted to £ 2½ million. This debt had increased to £ 97¾ millions in the beginning of 1860 and the interest charge to 4½ million. Thus, independent of other losses, the Mutiny had cost India, in a direct public charge, the sum of £ 38·4 million and had imposed upon the country in connection therewith an annual burden of £ 2 million for many a year in tne future.

A deficit of £ 30½ million in the preceding three years, a deficiency of £ 6½ million yawning for the next year and an addition of £ 38½ million to the public debt—these were facts which would have made any thoughtful man pause. But were not Indian finances in a similarly parlous state before, e. g. in times of the Nepal, Mahratta, Burmese and other wars and was not the position retrieved by the strenuous efforts of Lord Ahmerst and Lord William Bentinck? Mr. Wilson was inclined to believe that the magnitude of the difficulty he had to face was much greater than that of any of the earlier periods of financial troubles. Even supposing, he contended, the difficulty, serious as it was, could be overcome as it had been in the

past, was India to remain content with the old state of things as an ideal, viz. deficits alternating with surpluses and more deficits than surpluses? What was the financial condition of the past? In the period of 46 years between 1814 and 1860, thirteen years had surpluses aggregating £ 8·8 million and the remaining 36 years had deficits amounting to £ 72·1 million. From 1834, when the East India Company ceased to be a commercial body upto the year 1860, out of 26 years, only 7 showed surpluses and 19 exhibited large deficits. Only in 15 years since the beginning of the century, had any diminution taken place in the public debt, and in the remaining 44 years, considerable additions had been made to the national burden.

But could not a steady natural increase of revenue be trusted to fill up the void of deficit which had been temporarily caused by an unprecedented terrible calamity? Mr. Wilson's reply to this question was an emphatic No. He analysed the financial situation as follows. Opium, which gave a net revenue of £ 5 million a year, was a precarious source of national income, being, according to the Finance Member, a unique instance of one country successfully raising a large amount of revenue from the subjects of another. There was no guarantee of the opium revenue continuing at the above mentioned large figure. Another source of income on which the State had relied too much, was the land tax; and Mr. Wilson stated that the efforts which had been made in the past to improve that revenue, had "resulted in some thing bordering on oppression of the ryots and not leading in the long run really to the improvement of

the revenue." It was dangerous, he thought, for a great Empire like India, to rely so exclusively upon one source of revenue at the risk of oppressing the people and impoverishing the exchequer. Though he painted an exceedingly dark picture of the financial situation as he found it, the Finance Member was by no means hopeless about the future, and his optimism rested on the firm rock of his conviction about the unlimited possibilities of the splendid natural resources of India and the bright prospect of material prosperity the people had before them. He felt that Indian merchants and bankers with many of whom he had free intercourse, in public and in private, would well compare with some of the most enlightened classes in Europe, in enterprize, knowledge and sagacity. Only the Government must be true to itself and to the people and must develop India's resources for the benefit of the nation and the national exchequer.

These general observations of Mr. Wilson appeared to be intended to prepare the mind of the public for favourably receiving the proposals he had to make, regarding the imposition of fresh and direct taxation; and at last the preacher of the sermon came to the stage of sending the hat round among his audience. He had, of course, anticipated the objections that would be taken to the policy Government contemplated adopting. It would naturally have occurred to any one that a sincere attempt should have been made to meet the national deficit by retrenchment and economy in the first instance; and perhaps additional taxation would then have been found to be unnecessary. It would

also be contended that the people of India were too poor to be called on to bear new burdens, and the right course for the Finance Member to follow would have been to employ the existing sources of revenue in such a way as to make them go far enough and obviate the imposition of new taxes. As regards the first of these two objections, Mr. Wilson pointed out that far from being unmindful of its duty in this respect, Government was doing every thing possible to reduce expenditure which could not, however, be cut down below a certain point defined by the interests of peace, security and prosperity. As to the second objection, he maintained that India was the lightest taxed country in the world. Out of a total of £ 37 million of revenue in 1859–60, land revenue which, according to Mr. Wilson, was rent and not a tax, and opium revenue which was paid by foreign people, and other minor items of a like character, accounted for nearly £ 28·6 million; and the balance amounting to £ 9 million alone was taxation proper, consisting of customs duties, excise, stamps &c. The average amount of taxation per head of the population in India, which was, by the latest census, 132,292,000, was only 1s. 4d. or a little more than 10 annas as against £2 3s. a head in England.

The position as it appeared to Mr. Wilson, was, therefore, this: (1) The condition of Indian finance which had always been one of deficit, had recently become critical. The national debt had enormously increased and with it the interest charge. The existing sources of revenue would be absolutely inadequate to meet the necessary ex-

penditure, and annual deficits would have to be met with loans. (2) While this was the pitiable state of public finance, on the one hand, on the other, every class in the community was in a condition of unparalleled prosperity under the protection of Government. (3) The burden of taxation in India was the lightest borne by any people of a civilised country. (4) Under these circumstances, it would be the clear duty of the State to place the national finances on a sound footing by asking the people to contribute more for its expenditure. Any other course would be shortsighted and suicidal. Mr. Wilson firmly stated that Government did not want to tinker with the problem but desired to deal with the difficulty once and for all so as to render it unnecessary again to disturb the public mind or to have recourse to further measures of taxation in the future.

Three great principles were laid down as having inspired the Government's decision to adopt their taxation measures. They were that the measures (1) must be based upon perfect equality and justice to every class of the community, European and Indian, official and non-official. (2) They must conform to sound financial and commercial policy. (3) They must not offend against the religious susceptibilities of the Indian people. With regard to the last point, Mr. Wilson quoted Manu to show what ample latitude was given by that Hindu law-giver to the needy finance minister to levy a number of taxes on a variety of objects. He had, therefore, he thought, the highest Indian authority on his side when he proposed his measures of additional taxation.

The first of the proposals of Government related to a change in the customs tariff, and it demonstrated how deeply imbued Mr. Willson was with an idea of the infallibility of the free trade doctrine which had come to be accepted in England as a potent means of economic prosperity and international peace. Finding that some of the import duties had been enhanced the previous year for the purpose of meeting the national deficit, he proceeded to place several of the articles on the free list, and to reduce the duty from 20 per cent. to 10 per cent. upon all those commodities which bore that high impost, except tobacco. Thus wool, hides, flax and tea were entirely freed from all duties, and it was stated with respect to the last of these articles that Government having spent a lot of public money on the promotion of the cultivation of tea, it was unwise to place a duty on its export and thus hamper its development. It was, besides, an industry which attracted European capital and European settlers to this country.

While certain duties were thus altogether removed and others were slightly reduced, import duties on saltpetre and twist and yarn were enhanced; and the net gain to customs revenue that resulted from the modification of the tariff, amounted to £ 351,700. Almost all articles which constituted the raw materials of British manufacturing industries and which had to struggle against the competition of other countries, were released from the restraints of export duties. Mr. Wilson had obviously one eye fixed upon the improvement of the exchequer, and the other upon the benefit of the British industries and

Indian agriculture, in the fiscal reforms that he proposed. And he remarked that those measures were intended not so much as a means of meeting financial difficulties as of laying the foundation of increased prosperity in the future by relieving agriculture as well as commerce from restrictions and imposts which were calculated to prove serious impediments to material progress.

The main object Mr. Wilson had to attain, however, was to overcome the financial danger which huge deficits in the exchequer threatened the solvency and the stability of the State and to place the national finances on a secure footing so that the normal revenues might prove adequate for the needs of the Government in the future. This end, it was believed, could not be achieved only by a reduction of expenditure and an improvement of the machinery of the administration. The Finance Member, therefore, felt compelled to propose an increase in the revenue by the imposition of new taxes. These were to be of two classes—one category was intended to be only a temporary expedient, confined to a limited period, with a view to the immediate emergency; and the other measure was to have no limit of time and was to be a permanent source of revenue to Government. As matters stood, the bulk of the revenue of the State was derived from land; and as the practice of revising the assessment of the land tax periodically had the effect of keeping the cultivator at a rack rent, it was necessary in Mr. Wilson's opinion, that the incidence of the new taxes should be borne mainly by other classes.

Mr. Wilson was perfectly aware that his taxation proposals would give rise to serious opposition in the country, and he repeated the saying of Burke that "it is as difficult to tax and to please, as it is to love and be wise". A recent attempt to impose direct taxation had evoked a good deal of controversy and resistance. Mr. Harrington had, already in August, 1959, introduced in the Indian Legislative Council, a bill to levy license duties upon trades. It had been proposed by the bill to graduate the tax and to charge it in proportion to the gains of trades. Partly owing to the resistance it had encountered and partly to the appointment of Mr. Wilson specially to bring about reform in Indian finances, the measure was kept in abeyance. It was not now proposed to revive that project, but it was decided to levy the tax in a modified form. The new license duty was to be a small and almost uniform impost on traders of every class, high and low, but without any attempt at graduating the tax. It was thought that the duty would operate more as a registration tax than anything else in the majority of cases, and that where it would really be felt as a tax, viz. by people of small means, for that very reason the latter would be exempted from the proposed income tax. The license duty was to consist of three rates—(1) one rate of one rupee a year on artizans, including weavers, leather workers and persons following similar trades but excluding the agricultural menial classes in villages who were attached to them and were generally paid in grain; (2) Rs. 4 per year on retail shop-keepers and small manufac-

turers, who worked for local retail trade; and (3) Rs. 10 on wholesale traders, bankers, manufacturers and professions. The rates were to be uniform, and would apply to all of each class without any discrimination as to incomes or the extent of business.

As regards the income tax, it was decided that it should fall on all incomes above Rs. 200 a year. The principle on which Mr. Wilson proceeded in this connection was laid down in his remark that "the wider you can spread the incidence of your taxation, so long as a fair proportion is maintained as to the means of different classes of persons, the more just it is as a whole." The security ensured by Government extended to all classes of the population from the humblest labourer to the wealthiest capitalist, he went on to argue, and it was but just that they should contribute towards the expenses of the State according to their capacity. As it was believed that the combined effect of the license duties and the income tax would be more severely felt by people of smaller incomes, it was proposed that incomes from Rs. 200 to Rs. 500 should pay at the rate of only 2 per cent. and that incomes above Rs. 500 were to pay at the rate of 4 per cent. Out of the proceeds of this 4 per cent., 1 per cent. was to be appropriated strictly to local purposes, and the remaining 3 per cent. was to go to the public treasury. Mr. Wilson felt that the needs of local improvement were so urgent that they had to be immediately and specifically provided for, and hence this special appropriation of a part of the proceeds of the income tax to enable them to be carried out.

Incomes assessable to that tax were divided into four classes:—(1) derived from real property, (2) from trades and professions, (3) from the public funds, and (4) incomes proceeding from public salaries. The English income tax had a fifth schedule viz. the incomes of farmers. Such a class did not exist in India; the ryots who were kept at a rack rent by the periodical revision of assessment, did not correspond to English farmers who were men of large resources. But what about the Zamindars under the permanent settlement who stood upon a different footing? Were they to be exempted from the payment of the income tax? Mr. Wilison's reply to this question was an emphatic 'No.' He attempted to show by a reference to the minutes of Lord Cornwallis that the permanent settlement was never intended to free the zamindars from the obligation to pay a general tax imposed by the State on all people alike to meet its necessities. For instance, landlords in England whose payment of the land tax had been commuted for a fixed rate and even redeemed, were not exempted from the income tax. Nor were the fund-holders. These two classes, it was contended, could not be allowed to escape the tax on incomes in India as they had not been in England. A curious claim had been likewise advanced to exemption from additional taxation on behalf of the people of the Presidencies of Bombay and Madras on the ground that as the financial difficulties to be overcome by fresh taxation, had been caused by the Mutiny and as the Mutiny had taken place in Bengal, the Provinces of Bombay and Madras could not, in justice and fairness, be made to

pay for its cost. Mr. Wilson maintained that this claim to exemption was utterly ridiculous and was as absurd as the proposal that 'the whole cost of the criminal law should be defrayed by the convicts who fill our jails'! The country was one, he pointed out, and people in all its parts benefited equally by the services rendered by the central government ; all provinces had, therefore, to contribute to the defence of the country and the maintenance of order.

The Zamindars of the N. W. Provinces who paid to Government 65 per cent. of the rents collected by them, were to be assessed to the income tax only on one half of the amounts they paid to the State, and such of them as had incomes of less than Rs. 400, were entirely exempted. This measure of the profits of landlords fixed for the income tax was not to apply to the landlords under the perpetual settlement. Each assessee was, further, to submit his own statement of income, and it was suggested that Panchayats might be appointed to help the officials in examining and approving the estimates of income. In order to obviate the annoyance caused by annual assessment, commissioners of income tax were to be empowered to compound for a fixed sum for a period of five years or for any other of not less than three years. This feature of the bill was copied from the English Income tax Act and was calcutated to conduce to the convenience of Indian traders. The only other tax proposed was the one on homegrown tobacco, and it was to be approximately equal to the import duty upon that article. Once again Mr. Wilson had to meet what he termed " the pretentions set up by the perpetual settlement hold-

ers" to the effect that you "cannot tax tobacco in its cultivation because that would indirectly be increasing the rent of land", and he hoped that the claims of that fortunate class would be put to rest for ever.* And he felt convinced of the equitable and sound character of the taxes he had proposed.

But were the new taxes expected, by themselves, to fill up the gap of deficits? No. A margin would be left to be covered which retrenchment and economy alone would enable Government to meet. There was, however, little room for economy in the expenditure on civil services, which would demand more, in course of time, for the sake of the country's moral and material development. It was only in the case of the Army that there was any hope of reduction of expenditure. The Army was admittedly capable of considerable dimunition and of redistribution, and the finances of the country could be improved to a material extent in that direction. Mr. Wilson, however, laid stress on one paramount requirement, and that was the establishment of central financial and revenue control which was quite compatible with the concession of greater executive responsibility to local authority. In writing to the Court of Directors in 1842, Lord Ellenbourough stated that "there was no one officer in India charged with

*The echoes of this argument have been heard frequently since then, and so recently as two years ago the contention was pressed into service when it was proposed by Government to take agricultural income into account in fixing the rate for non-agricultural income. Tea planters also would not allow their profits to be taxed on a similar ground.

the duty of viewing the expenditure of the State as a whole and of considering every proposal or existing item of charge, not by itself only, but with reference to the total charge upon the revenue" and that without an entire change in the financial department and some material modification of the system of carrying on government, all efforts to bring about retrenchment and economy were bound to be futile. Mr. Wilson endorsed these remarks and earnestly pleaded for efficient financial control to be exercised from the centre of government by a responsible authority. A feeble attempt was made in this behalf about the year 1843 but it failed because the financial department that was then created as a remedy, did not combine power with responsibility. The mistake would not be repeated, Mr. Wilson went on to assure the country, and that the pruning knife would be courageously applied to the army expenditure. But some time must elapse before the fruits of the policy of new taxation and economy could be gathered in; and in the meanwhile, financial difficulties would be tided over with the help of the large balances in the exchequer which, it was calculated, would stand on 30th April, at £ 19,600,000 as against £ 13½ million in the previous year. Mr. Wilson's speech closed on a solemn note with the avowal that the finances of the country would be managed in a spirit of equity and fairness to all interests concerned and with the sincere desire to promote the well-being of the people. In order to enable the reader to obtain a clear appreciation of the situation of the country as regards national revenue and expenditure, public debt and

the country's foreign trade, we add to this Chapter a few important statements which cover a number of years and which were submitted by Mr. Wilson to the Legislative Council in connection with his budget speech.

I

Memo of Surplus or Deficit in the Revenues and Charges of India (including Home Charges) from 1814-15 to 1859-60.

(The entry for 1829-30 is taken from Accountant General's Annual Report for that year. The entry for 1859-60 is according to the Regular Estimate. The rest of the entries are taken from the Parliamentary Returns.)

Year.	Surplus.	Deficit.	Remarks.
	£	£	
1814—15		102,992	
1815—16		1,039,546	
1816—17		369,005	Nepal and Mahratta Wars.
1817—18		792,665	
1818—19		1,380,059	
1819—20		1,7616	
1820—21	117,262		
1821—22	610,698		
1822—23	1,743,139		

Memo of Surplus or Deficit—(*Contd.*)

Year.	Surplus.	Deficit.	Remarks.
	£	£	
1823—24		847,091	
1824—25		2,961,447	
1825—26		4,953,918	First Burmese War the Siege of Bhart-poor.
1826—27		2,3 6,320	
1827—28		3,151,144	
1828—29		927,629	
1829—30	1,070,534		
1830—31	109,199		
1831—32		207,581	
1832—33		264,332	
1833—34	49,398		
1834—35		194,477	
1835—36			
1836—37	1,441,513		
1837—38	1,248,224		
1838—39	780,318	381,787	
1839—40		2,138,713	
1840—41		1,754,825	Affghan, Scind, and Gwaliar Wars.
1841—42		1,776,603	
1842—43		1,346,011	
1843—44		1,440,259	
1844—45		743,893	
1845—46		1,406,865	First Sikh War.
1846—47		971,322	
1847—48		1,911,986	
1848—49		1,473,225	Second Sikh War.
1849—50	354,187		
1850—51	415,443		
1851—52	531,265		Second Burmese War.
1852—53	424,257		
1853—54		2,044,117	
1854—55		1,707,364	
1855—56		972,791	
1856—57		143,597	
1857—58		7,864,222	
1858—59		13,393,137	
1859—60		9,290,129	

II

Debt of the Government of India.

On the 30th of April.	In India.	In London	Total.	Interest Payable.
	£	£	£	£
1834	37,827,715	3,523,237	41;350,952	1,959,594
1835	36,250,297	3,523,237	39,773,534	1,908,716
1836	31,821,118	3,522,925	35,344,043	1,638,589
1837	32,433,329	3,522,825	35,956,154	1,679,401
1838	32,266,553	1,734,300	34,000,853	1,589,112
1839	32,246,573	1,734,300	33,980,873	1,574,762
1840	32,750,696	1,734,300	34,486,996	1,596,631
1841	34,187,827	1,734,300	35,922,127	1,673,795
1842	36,670,173	1,734,300	38,404,473	1,799,824
1843	38,744,340	1,734,300	40,478,640	1,901,863
1844	40,149,150	2,299,600	42,448,750	1,962,855
1845	41,203,150	2,299,600	43,502,750	2,013,688
1846	41,592,249	2,299,600	43,891,849	2,032,391
1847	44,584,626	2,799,600	47,384,226	2,218,438
1848	45,957,614	3,899,500	49,857,114	2,337,529
1849	47,151,019	3,899,500	51,050,519	2,416,888
1850	50,035,268	3,899,500	53,934,768	2,525,111
1851	51,199,815	3,899,500	55,099,315	2,562,811
1852	51,215,193	3,899,500	55,114,693	2,548,485
1853	52,313,094	3,899,500	56,212,594	2,593,031
1854	49,762,876	3,894,500	53,657,376	2,250,183
1855	51,615,927	3,894,400	55,510,327	2,330,551
1856	53,848,927	3,894,400	57,743,327	2,439,058
1857	55,546,652	3,894,400	59,441,052	2,525,375
1858	60,704,084	8,769,400	69,437,484	3,027,701
1859	66,228,007	14,649,000	80,877,007	3,628,612
1860	71,202,807	26,649,000	97,851,807	4,461,029

III

Total Annual Expense of the Military Force of India, in each year from 1834-35, according to the Annual Military Statements received from India.

Year.	Buildings, Works and Stores and other Military charges.	Total	Remarks
	£	£	
1834—35 ...	1,164,692	7,041,162	These entries are taken from Statements annexed to the Report from the Select Committee on Indian Territories, dated 29th June 1852, and include charges on account of Military Buildings.
1835—36 ...	1,156,005	6,847,096	
1836—37 ...	1,302,242	6,885,851	
1837—38 ...	1,422,019	7,141,439	
1838—1839	1,239,100	7,607,514	
1839—40 ...	1,461,461	8 454,208	
1840—41 ...	1,372 353	9,006,433	
1841—42 ...	1,404,326	9,193,745	
1842—43 ...	1,469,805	9,562,524	
1843—44 ...	1,730,427	9,558 306	
1844—45 ...	1,621,789	9,684,985	
1845—46 ...	2,033,421	10,384,249	
1846—47 ...	2,297,021	10,598,016	
1847—48 ...	2,180,325	10,932,209	
1848—49 ...	1,861,808	10,739,947	
1849—50 ...	1,701,562	10,098,926	
1850—51 ...		10,715,145	These entries are taken from the Statements of Receipts and Disbursements prepared in the Financial Secretary's office and are exclusive of Military works charges. Rate of conversion into £ at 25 the Co.'s Rupee.
1851—52 ...		10,552,776	
1852—53 ...		10,963,249	
1853—54 ...		11,691,465	
1854—55 ...		10,624,149	
1855—56 ...		10,653,185	
1856—57 ...		10,858,968	
1857—58 ...		14,746,737	
1858—1859		19,878,935	
1859—60 Estimated.		16,432,777	

IV

Statement exhibiting the Amount of Cash Balances in the Indian Treasuries on the 30th of April in each year, from 1834 to 1859.

	£	
30th April of 1834	8,441,438	
„ 1835.........	9,745,056	
„ 1836.........	10,838,146	
„ 1837.........	10,514,861	
„ 1838.........	10,662,093	
„ 1839.........	9,518,541	
„ 1840.........	9,465,676	
„ 1841.........	8,979,795	
„ 1842.........	8,430,799	
„ 1843.........	9,831,414	
„ 1844.........	11,021,357	
„ 1845.........	11,537,085	
„ 1846.........	9,554,057	At 2s. the Co.'s Rupee.
„ 1847.........	10,691,804	
„ 1848.........	10,037,626	
„ 1849.........	11,042,456	
„ 1850.........	12,433,234	
„ 1851.........	12,982,174	
„ 1852.........	15,032,078	
„ 1853.........	15,439,134	
„ 1854.........	13,778,608	
„ 1855.........	10,049,202	
„ 1856.........	12,846,222	
„ 1857.........	13,611,534	
„ 1858.........	14,411,350	
„ 1859.........	10,707,020	
„ 1860... Estimated	15,073,000	

V

Value of the Imports into British India from the United kingdom and other Countries in each year from 1834-35 to 1858-59

Year	Merchandize			Treasure
	From United Kingdom	From other Countries	Total	
	Rupees	Rupees	Rupees	Rupees
1834-35	2,68,22,216	1,57,81,849	4,26,11,065	1,89,30,233
1835-36	3,13,54,106	1,64,64,372	4,78,18,478	2,14,64,651
1836-37	3,83,05,042	1,70,64,863	5,53,69,902	2,03,61,672
1837-38	3,21,06,633	1,82,18,078	5,03,24,711	2,64,01,013
1838-39	3,50,59,300	1,73,47,467	5,24,06,767	3,01,09,195
Average for 5 years	3,27,29,459	1,69,76,725	4,97,06,184	2 34,53,382
1839-40	4,28,94,892	1,54,17,476	5,83,12,368	1,94,52,642
1840-41	6,01,43,398	2,40,16,007	1,41,59,405	1,78,62,533
1841-42	5,43,95,648	2,34,90,005	7,78,85,653	1,84,13,353
1842-43	5,35,49,012	2,24,87,017	7,60,36,829	3,44,32,916
1843-44	6,34,73,490	2,47,04,484	8,81,77,914	4,79,46,781
A erage for 5 years	5,48,91,288	2,20,22,997	7,69,14,285	2,76,21,645
1844-45	7,95,21,795	2,80,18,864	10,75,40 659	3,75,24,718
1845-46	6,47,71,431	2,61,03,363	9,08,74,794	2,49,59,886
1846-47	6,42,04,045	2,47,62,600	8,89,66,645	2,93,99,224
1847-48	5,79,02,284	2,80,73,886	8,59,76,170	1,97,33,914
1848-49	5,51,21,104	2,83,26,938	8,34,48,042	4,20,45,033
Average for 5 years	6,43,04,131	2,70,57,180	9,13,61,262	3,07,32,495
1849-50	7,57,89,807	2,72,09,079	10,29,98,886	3,39,68,074
1850-51	8,28,71,447	2,73,69,413	11,02,40,860	3,55,69,070
1851-52	9,13,20,777	2,56,94,409	11,69,70,186	4,44,92,132
1952-53	7,18,45,407	2,38,03,895	9,56,49,302	6,09,01,310
1853-54	8,41,13,995	2,78,33,472	11,19,47,467	4,87,74,801
Average or 5 years	8,11,88,286	2,63,73,053	10,75,61,340	4,47,41,077
1854-55	9,76,87,483	2,93,46,409	12,70,03,892	2,02,89,424
1855-56	10,89,08,096	2,93,96,354	13,83,04,450	11,29,38,487
1856-57	11,29,33,550	2,75,48,373	14,04,81,923	14,39,84,889
1857-58	11,64,64,352	3,23,80,575	14,88 44,927	15,69,81,824
1858-59	16,85,69,087	4,50,95,392	21,36,64,479	12,70,11,249
Average years	12,09,06,513	3,27,53,420	15,36,59,934	11,22,31,074

VI

Value of the Exports from British India to the United Kingdom and other Countries in each year from 1834-35 to 1858-59.

Year	Merchandize			Treasure
	To United Kingdom	To other Countries.	Total	
	Rupees	Rupees	Rupees	Rupees
1834-35	3,05,69,730	4,93,64,473	7,99,34,203	19,47,407
1835-36	3,97,53,038	7,13,11,917	11,10,64,955	10,81,093
1836-37	4,91,54,702	8,32,47,130	13,24,01,832	26,39,340
1837-38	4,35,38,221	6,88,89,580	11,24,27,801	34,06,563
1838-39	4,57,31,593	7,27,16,100	112,77,47,693	34,79,058
Average for 5 years	4,16,29,456	6,90,85,840	11,07,15,296	25,10,692
1839-40	5,96,99,519	4,89,27,937	10,86,27,456	47,05.231
1840-41	7,05,43,881	6,40,11,961	13,45,55,842	36,64,859
1841-42	7,12,07,484	6,70,44,692	13,82,52,176	51,50,757
1842-43	5,82,09,658	7,73,08,588	13 55,18,246	21,57,966
1843-44	7,76,01,283	9,49,33,489	17,25,34,772	74,60,763
Average for 5 years	6,74,52,365	7,04,45 333	13,78,97,688	46,27,915
1844-45	7,24,06,197	9,34,95,927	16,59,02,125	1,10,68,402
1845-46	6,65,89,433	10,36,97,303	16,02,86,736	81,60,284
1846-47	6,51,16,895	8,84,37,510	15,35,54,375	71,38,696
1847-48	5,68,38,267	7,62,85,703	13,31.23,970	1,42,60,380
1848-49	9,19,19,593	9,89,65,625	16,08 85,018	2,53,97 425
Average for 5 years	6,45,74,071	9,21,76,373	15,67,50,444	1,32,05,037
1849-50	7,02,64,706	10,20,58,?87	17,31.22,993	97,12,441
1850-51	7,00,70,203	5,86,11,2103	12,86,81,306	37,72 015
1851-52	6,27,72.181	7,17,44,519	13.49,16,700	64,47,656
1852-53	7,02,25.901	6,87,02,845	13,89,28,746	37,98,357
1853-54	6,57,74,650	10,39,55,307	16,97,29,957	80,93,027
Average for 5 years	6,78,21,528	8,11,74,412	14,89,95,940	64,64,699
1854-55	6,65,26,859	10,28,99,108	16,94,25,967	96,99,057
1855-56	8,02,06,633	11,32,97,939	20,25,04,573	57,99,399
1856-57	8,70,43,698	13,04,65,709	21,75,09,207	1,24,27,398
1857-58	9,71,17,029	15,29,39,034	25,00,56,063	81,94,372
1858-59	9,92,25,965	17,06,65,038	26,18,91,003	64,10,062
Average for 5 years	8,78,23,996	13,40,53,365	22,18,76,362	85,06,057

VII

An account of the Estimated Gross Public Income of India in the year ending the 30th April, 1860.

Income ...			£. @ 2s. the Rupee.
Revenue, Land, Sayer and Abkaree ...			21,000, 598
Customs, exclusive of duty on Salt ...			2,680,703
Salt ...	Sales and Excise	3,032,049	
	Duty on Salt imported into Calcutta	750,000	
			3,782,049
Opium ...			6,066,122
Miscellaneous ...			4,176,737
			37,706,209
Receipts from Railway Companies on account of Traffic in India ...			330,700
			38,036,909
Excess of Expenditure over income in India ...			3,783,109
			£ 41,820,018.

VIII

An account of the Estimated Gross Public Expenditure of India in the year ending the 30th April, 1860.

EXPENDITURE		£. @ 2s. the Rupee.
Cost of collection of Revenue, Comprising charges, collection of Land, Sayer, Abkaree, Customs, Salt, Opium, Post Office and Stamp revenue, also payments other than charges, collection, and territorial and pollitical Pensions and allowances to District and Village officers and Enamdars, including charitable Grants. ...		7,317,845
CHARGES ON REVENUE		
Interest of Debt in India. ...		3,035,667
Military charges in India including Extra Levies, and Local Corps and Repairs and Construction of Buildings. ...	18,460,240	
Stores from England charged in the Indian Accounts. ...	1,004,920	
		19,465,160
Marine Charges in India, including Public Works Charges. ...	816,645	
Stores from England charged in the Indian Accounts. ...	103,660	
		920.305
Civil charges in India, including Civil and Political Establishments, Judicial and Police charges, and charges for Buildings, Roads and other Public Works, except Military and Marine.	,898,890	
Stationery, Mint and other Stores from England charged in the Indian Accounts. ...	292,170	
		9,191,060
Miscellaneous Charges in India ...		1,839,981
		41,770,018
Interest to be paid in India on Railway Capital guaranteed. ...		50,000
		£ 41,820,018

CHAPTER II.

PRE-MUTINY FINANCE.

The story of the acquisition of territorial authority and political power in this country, effected by steady steps and with consumate skill by the British East India Company in the course of the century that succeeded the battle of Plassey, is too well known to require more than a passing reference in this place. The principal aim of the Company naturally was to carry on a profitable trade under its charter and to earn as large a dividend as possible for its shareholders. Its trading competition was curiously mixed up as much with the international rivalries of the great European Powers as with the internecine feuds and quarrels of Indian rulers; and in course of time the trading character of the Company came to be subordinated to its political functions of governing extensive territories and making wars and treaties with the princes and chiefs of India. The Company's factors and clerks played the roles of generals and diplomatists and had to assume the strange functions of administrators of vast territories and the framers of

governmental systems. This change was reflected in the growing assumption of control over the affairs of the Company by the British Parliament and in the loss of its commercial monopoly and the restriction of its trading transactions. By the Charter Act of 1833 the last vestige of the Company's commercial privileges and operations was swept away, and it was allowed to hold its Indian territorial acquisitions in trust for the British Crown to be handed over when required, under the strict control of a Board of Commissioners directly responsible to Parliament. This 'double goverment' of the Board and the Court of Directors of the Company, continued till the whole was assumed by the Crown in 1858.

The territorial acquisitions, as they were added from time to time, yielded their revenue and entailed their expenditure. The profits derived from conquered countries supplied the Company with the capital necessary for its commercial 'investments,' and the money was devoted to the purchase of commodities, which left a margin of profit when disposed of in Europe. Conquest of territory, however, meant costly wars and deficits, and the political and the commercial operations of the Company had often to be carried on at a loss. But the shareholders of the Company who deprecated wars that were calculated to cut into their earnings, had to be paid their dividends; and the contraction of debt for ensuring an equilibrium between revenue and expenditure and a surplus for a dividend, was inevitable. When the British Crown, therefore,

took over the government of its Indian territories, it had to assume, on behalf of the Indian people and at their cost, full responsibility for the country's debt and for the redemption of its capital stock. By the Act of 1833, all the debts of the Company were made chargeable to Indian territorial revenues, out of which the Company was to receive a yearly dividend of £10½ on the capital. The nominal capital of the Company was £6 million, and 10% on this amounted to £ 650,000 per annum. Parliament decided to redeem the dividend charge after 1874 by the payment to the Company of double the capital sum viz. £ 12 million, of course, at the cost of India.

Financially, the Company was in deep waters in the time of Clive and Warren Hastings. The efforts made by the latter to increase the revenue and their direct and incidental results are well known. When he left the scene of his labours, the debt had mounted up to £ 8,000,000, but Bengal yielded a surplus of one million. The financial position in 1793 was as follows :—

Revenue of all Indian possessions...	£ 8,225,628
Expenditure in India ...	...£ 7,007,050
Surplus for remittance, &c....	...£ 1,218,578
Indian debt ...	...£ 8,000,000

Lord Wellesly's administration made huge additions to the Company's territory and to its Indian

debt, which stood at £ 25½ in 1805. The revenue in that year was £ 15,403,409, and the total charges, in India and in England together, amounted to £17,672,017; thus there was deficit of £ 2,268,608. The Court of Directors became nervous and ordered a policy of peace and nonintervention, which resulted in the restoration of a surplus once more within a few years. Thus in 1810 the revenue and the expenditure nearly balanced each other at £15½ millions, and the debt stood at £ 28¾ million. The Nepal, Pendaree and Burmese wars once more threw the finances of the country into a confusion and there were deficits and additions to the national debt. The statistics given at the end of the last Chapter will have shown what intimate relation there was between the financial position of the country, its surplus or deficit and increase or decrease of debt and the wars which the Government waged from time to time.

Throughout the first half of the nineteenth century, wars alternated with spells of peace, and, on the whole, there was more war than peace. Lord Amhert's administration was full of hostilities, deficits and financial difficulties. Lord William Bentinck was more fortunate and succeeded in wiping off the deficit which had become chronic, and in establishing a surplus. There were now surpluses for a few years but the palmy days of prosperity closed with the declaration of the Afghan War, and it was not till the

year 1849 that the treasury showed a surplus, thanks to the exploits of Sir Charles Napier in Sind and to the campaigns in the Punjab. Financial solvency returned in 1849-50 when the accounts showed a small surplus of half a million with expenditure at about £ 27 million. The prosperity, however, lasted for only four years and there was once more a cycle of deficits which reached colossal dimensions during and after the Mutiny. It was slowly dawning upon the minds of the people here and in England that the financial system of India required overhauling, and that the double government which looked to the affairs of this country, was more expensive than efficient. The manner in which the accounts were made up and presented was confusing and there was little check, of a budgetary nature or of independent audit, on the expenditure. As one writer complains, "the annual Parliamentary accounts are made up in a peculiar way. The Presidencies are not combined; the gross revenue of India is not given; some charges are written off from the gross, some charged against the net revenue, while some items of receipt are in a singular way written off the charges". Add to this the fact that the rate of exchange at which accounts were calculated varied from time to time and you get an idea of the confusion which prevailed in the financial position and management of India. The following may be taken as a typical statement of the financial position of India, as it used to be presented to Parliament :—

FINANCIAL STATEMENT.—1853-54.

INDIAN FINANCE.—1851-52.

	£	£	£		
I—BENGAL..					
Revenue	7,582,435				
Local charges	1,936.362				
Local surplus		5,648,073			
NORTHW-ESTERN PROVINCES.					
Revenue	5,670,715				
Local charges	1,402,238				
Local surplus		4,268,477			
Military charges of Bengal and North-Western Provinces	5,442,230				
Net Revenue of Ditto ...		...	13,254,150		
Charges of Ditto ...	...	...	8,770,330		
Surplus available for general purposes of India... ...	...	...	...	4,484,820	
II—MADRAS.					
Revenue	...	...	3,704,048		
Charges	...	...	3,204,273		
Surplus available for General purposes of India ...	...	...	...	499,775	
III—BOMBAY-					
Revenue	...	...	2,868,298		
Charges	...	...	2,847,392		
Surplus available for General purposes of India ...	...	...	...	20,906	
Total Revenues of the several Presidencies	...	...	19,827,496		
Total charges of Ditto	...	...	14,822,495		
Total Surplus of Ditto	...	...		5,005,001	
Interest of Indian Debt ...	...	...	1,967,359		
Charges defrayed in England..	...	...	2,506,377		
Total charges on Ind. Revenue	...	...	...	4,473,736	
Surplus of Income over Expenditure	...	...	...	...	531,265

The above statement was submitted to the House of Commons in August, 1854 by Sir Charles Wood, President of the Board of Control, and in doing so he remarked that it was only two years short of half a century since an Indian budget had been presented to the House, and that he would follow the precedent set in former years and move certain resolutions on the subject of the finances of India.

3

The resolutions were nothing more than assertions of matters of fact deducible from the accounts placed before the House and crystalized the main features of the accounts. Sir Charles was anxious to improve the form of the accounts so as to render them more intelligible and informing, and pointed out the drawbacks of the existing accounts in the following words:—"At the same time, it is true that the accounts will not give an exact representation of the charges of the separate presidencies, because there are some general charges included in the revenues of each presidency, and some which ought to be divided among the several presidencies are charged to one. Thus the charges of the Government of India are defrayed out of the revenues of Bengal; the charges of batta are paid out of the revenues of Madras, and of the Indian navy by Bombay, though these charges ought fairly to be distributed between the different presidencies. In like manner, the retired pay and furlough allowance of the whole of India are put into one general sum, though a portion belongs to each of the presidencies. I mention this circumstance to show that in the statement we are able to make out we do not accurately get the separate charges of the reepective presidencies, nor the general charges of the Indian Government as distinguished from the local payments."

It is difficult, under these circumstances, to get a clear idea of the financial position of each administra tive division of the country as also of the net revenue and expenditure of government, central and local. Each Presidency had its own army, and there was a

good deal of overlapping in the defence operations and of the finances of these forces. The finances of the Government of India and of the local governments of the Provinces were not distinguished from one another with sufficient clearness. Bengal more than paid its way and left a comfortable surplus for the use of the Central Government. Bombay was not able to make the two ends meet, and Madras was hit hard owing to the heavy financial burdens it had to carry on its shoulders. The idea of decentralization of finance hardly occurred to the responsible authorities though it had begun to be referred to in the course of discussions of Indian finances. The position of the finances revealed by the resolutions adopted by the House of Commons in July, 1856, may be summarised thus :—

STATEMENT FOR THE YEAR ENDING WITH
30TH APRIL, 1854.

Province	Net Revenues	Charges	Surplus	Deficit.
Bengal	£ 8,096,682	*£ 2,200,944	£ 3,978,870	
N. W. P.	£ 5,656,674	*£ 1,574,106		
Madras	£ 3,315,513	£ 3,539,334		£ 223,821
Bombay	£ 2,637,211	£ 2,977,113		£ 340,902
Total	£ 19,705,080	£ 16,290,933	£ 3,414,147	
	Interest on Debt	£ 2,195,975		
	Home Charges	£ 3,262,289		
	Ultimate Deficit	£ 2,044,117		

On account of the Mutiny no financial statement was submitted to Parliament in 1857 and in 1858: the

* Excluding military expenditure. The charges for the two Provinces including military expenditure were £ 9,774,486.

practice was resumed in 1859, and a review of the position that was then reached will not fail to be instructive. In presenting that review we shall conveniently show how the sources of revenue and the avenues of expenditure had developed in the course of the preceding generation or two. The outstanding feature of the revenue side of the account was the predominant position occupied by the land tax, the proceeds of which amounted to 60 per cent. of the total income of the State. Opium was the next big source of revenue, and the two between them contributed four-fifths of the whole of Indian finance. Land revenue had increased with the extension of British territory and of the cultivation of waste lands. At the commencement of the nineteenth century, the land tax yielded slightly more than £ 7¼ million. The figure rose to £ 13 million ten years later and was £ 18,392,000 in 1859. It was agreed on all hands that this source of revenue was inelastic, and no increase in its proceeds could be looked for in the near future.* On the other hand, some reductions would be required in the assessments of rayotwari and other lands which had been saddled with rather heavy burdens in the early settlements. Improvement of communications might, at a later date, raise the value of lands and therefore the tax levied on it, in the temporarily settled parts of the country, but the Finance Member could not, for the time being, expect to secure

* "Taking the land revenue of India over all the presidencies, no increase can be expected from that source for some time to come."—Sir C. Wood in the House of Commons, August 1854.

any relief from that source. The opium monopoly of Government yielded a steadily growing amount of revenue. The yield was barely £ 1 million in 1810 and increased as follows:—

1810	...	...	£ 995,996
1820	...	...	£ 1,436,432
1830	...	...	£ 1,553,095
1840	...	...	£ 1,341,093
1850	...	...	£ 3,558,094
1856–57	...	...	£ 4,696,709
1857–58	...	...	£ 6,443,706

Divergent views were held about the moral aspect of the opium monopoly. On the one hand it was denounced as a 'dreadful traffic,' hideous in its results, comparable only to the transport of Africans from their own country to America;* on the other, it was defended as a perfectly legitimate method of raising revenue. The way in which the import of Indian opium had been thrust upon the Chinese Government, had been freely condemned, and it had been likewise suggested that the State opium monopoly in India should be converted into an excise duty. Government brushed aside the objection taken on moral grounds, and Lord Stanley observed in the House of Commons that "whatever may be the abuse of opium in India, or China, it can hardly be greater than the abuse of spirits in this country" Financially speaking, however, all agreed that it was a fluctuating, and therefore, an unreliable source of

* John Bright's speech in the House of Commons, 7th August 1855.

revenue, and Government was not prepared to bear the sacrifice that would be entailed by the substitution of an excise in the place of the existing State monopoly.

The manufacture and sale of salt was, for many years since the time of Warren Hastings, a strict Government monopoly in Bengal, and it was in 1836 that the system was given up in favour of the rule that a fixed duty was to be charged on all salt whether manufactured by Government or imported on private account by sea. It was a heavy duty and raised the price of an important necessary of life to an euormous extent. There are three sources from which the supply of salt is derived, viz. the sea, the lakes of central India and the mines of rock salt in western Punjab. Salt was manufactured by Government as in Bengal and Madras or was subjected, where privately produced, to a customs or excise duty as in northern India and in Bombay. The duty varied from one part of the country to another, and the position of salt revenue was as follows for the year 1849–50:—

	Gross Rs.	Net Rs.
Bengal	1,91,38,000	1,59,71,784
Agra	47,50,000	40,53,000
Punjab	10,00,000	10,00,000
Madras	46,45,926	38,33,312
Bombay	23,58,220	21,79,420
Total	3,18,92,146	2,70,37,516

The reasonableness and the justice of the salt tax were warmly dabated. Mr. Bright characterised

the tax on an article of food like salt as "positively disgraceful", as economically wrong and as "hideously cruel". Sir Charles Wood and other officials, on the other hand, defended it on the ground that it was the only tax that was paid by the mass of the people who were long accustomed to it and who did not feel oppressed by it. Mr. Wilson thought* that the duty on salt was objectionable and would have liked to see it abolished. But he would wait before touching that important source of revenue which it would not be easy for the Government to sacrifice. Improvement of the means of communication which was going on in the country, was, besides, calculated to lower the cost of transport, and therefore, the price of salt and thus to mitigate the hardship felt by the poorer classes.

Customs revenue was long derived both from sea customs and inland duties in the form of tolls on the transit of merchandise at every town and on all roads. The latter were abolished in the thirties and the forties of the last century ar e replaced by customs duties at sea port continental lines dividing the British fro Nativ States territory. The maximum duty on imports was 5 per cent. It was double in the case of foreign products viz. 10 per cent. Quadruple rates had to be paid on foreign goods if they were brought in foreign bottoms. About 1848 the discrimination against foreign bottoms was removed but the distinction between British and foreign products was retained and the latter were taxed at double rates. The export duty was 3 per

* Speech in the House of Commons.

cent., certain articles being exempted, and the export of cotton and sugar to British Possessions being allowed free. The whole of the customs revenue did not exceed one crore of rupees.

The remaining sources of State revenue were comparatively unimportant. The Government sold licences to vend intoxicating spirits and the monopoly was formed in each district to the highest bidder. Under indigenous rulers Abkaree was not a productive source of revenue and it was believed that owing to the monopoly and licence system followed by the Brirish Government, the consumption of spirits tended steadily to increase. Several petty taxes on trades, professions etc. which were common in all parts of the country, were abolished as they were found to be vexatious without being productive. The Moturpha tax, however, remained in Madras and was collected along with land revenue. There were many local taxes for watchmen and road and ferry funds which were, of course, utilised fo[illegible] l purposes. Stamp duties and judicial fees and s[illegible] cellaneous sources of revenue call for no rema[illegible]

As regards the charges, military expenditure, including military charges defrayed in England, averaged 12 crores of rupees for several years before the Mutiny and amounted to no less than 56 per cent. of the total net revenue even in 1849–50. Interest on debt was another large item of expenditure and stood at 2½ crores in 1849 and at 3½ crores ten years later. By 1854 the operation of the conversion of the 5 per cent. debt into one bearing a maximum rate of

4 per cent., was completed, and the whole transaction caused the country a saving of about one third of a million sterling. Lord Stanley attempted, in 1859, in the House of Commons, to show that the burden of the debt was, after all, not very heavy, and that India's position in that respect compared favourably with that of Great Britain. He pointed out that in this country the interest charge was about £ 3½ million on a revenue of £ 30 million i. e. 10 per cent. while in England the proportion of interest on debt to the gross national income was nearly two-fifths or 40 per cent. Taking the test of the incidence of the burden of the amount of debt per head of the population in the two countries, he said that the pressure in India was not more than 14s.; in England it was £ 28 per head. As Sir Erskine Perry pertinently indicated in reply to the above contention, in view of the inelastic nature and the small dimensions of the Indian revenues, the public debt was certainly large. The comparison was likewise not fair, it is obvious, owing to the difference between the two countries as regards their wealth and productive capacity.

The expenditure on public works before the Mutiny was about two to two and a half million a year. 'Public works' was a comprehensive term, and was meant to refer to buildings, roads, canals and works which were of the nature of an investment and calculated to produce revenue and works which were unproductive or indirectly and remotely productive.*

* "The large expenditure on public works must not be considered as absolute loss, but rather as profitable investment for there could be no doubt that the improvement of irrigation and the supply of other deficiencies in India would eventually tend to the increase of the revenue."—Mr. V. Smith in the House of Commons, 7th August, 1855.

Railways and irrigation works were constructed partly out of revenue and partly through private enterprise assisted by the State. By 1850,559 miles of railway had been opened for traffic, and about 5,000 miles of railway had been projected and sanctioned. The companies which undertook the construction of the lines, were given land free, and a guarantee of 5 per cent. interest was also granted to them. The total amount of capital guaranteed was, in 1859, about £ 40 million, and of this about £19 million was paid up. The total liability shouldered by Government on the score of guaranteed interest came to £ 3 million, and the interest actually paid was £1 million. The Madras Irrigation Company had likewise received a guarantee of 5 per cent. on one million. It was a disputed point whether the guarantee system was not a wasteful system, and its critics advocated its abandonment in the interest of economy. A good deal of attention was paid in the first half of the last century to irrigation works especially in northern India and in Madras. The Ganges and Jumna Canals were repaired and valuable work in this direction was done in the Punjab. Improvement of the means of communication between various parts of the country, which were lacking or defective, was also considered extremely important for the material and moral development of the country. The question of funds for the prosecution of these public works was, however, a serious obstacle in the way, but the extension of railways was carried on with great enthusiasm.

Other civil charges were spread over a number of items such as the cost of collecting revenue,

the police and the judiciary, which do not require notice. The most striking feature of the financial position sketched above was that the two sides of the country's account could with difficulty be made to balance each other and that there was little scope for any measures of reform calculated to require the outlay of funds from current revenue. That position reflected the defects of the system on which India was being governed and the changes which were being wrought in it under the rule of the East India Company. A commercial body was not likely to be zealous in managing the finances of a conquered country with an eye solely to the material and the moral developmemt of the people who had become its subjects. The cost of India's conquest was thrown on the shoulders of its people and the finances were burdened with a load whose weight it was not possible to mitigate without the adoption of a policy of strict justice and fairness.

While improvements were felt to be necessary in every direction, the funds required to carry them out, were lacking, with little prospect of an increase in the revenues of Government. Plans for the extension of education were laid down in the famous despatch of Sir Charles Wood on a generous scale and a desire was always expressed that India ought to be equipped with the most uptodate system of schools and colleges, law courts and public works. But few could suggest any practical methods for augmenting the income of the Government. Existing sources were wanting in elasticity and new ones could not be discovered.

Retrenchment and economy were only talked about, mostly as impossibilities or as things that might be attempted at some future time. Additional taxation seemed to be unthinkable: the existing avenues of income were not capable of greater production: retrenchment could not be effected: there was little room for economy and no possibility of an appreciable surplus. What was then the Government to do but mark time and try, some how or other, to escape deficits?

Adverting to the attitude of apathy which was characteristic of the public and the Parliament of Great Britain, towards questions which were vital to India, Sir E. Perry stated in the House of Commons that a welcome change had become visible in that respect and he summed it up as follows:-"The public mind had at length become impressed with the conviction that the East India Company was no more than any other body of stock-holders, having no connection, moral or physical, with India. It was also seen that the Court of Directors was a paid department of the State—a body of trustees for the Crown for the time being, their remuneration consisting partly of salary and partly of patronage. It had likewise been made clear that the finances of England were responsible for the deficiency of the revenues of India and the Torture Report had shown that the people of that country were very poor, and unable to bear the burdens imposed upon them. It followed from these facts that the Indian Government ought to be as scrupulously economical in expenditure as those who administered the funds raised from the British public. The East India Company, however, appeared to be blind to these prin-

ciples, and were in the habit of treating the revenues of India as if they were still their own corporate funds."

The whole financial system of the East India Company was unsuited to the traditions and the condition of India, though there was no apparent departure from the system in vogue in the time of the indigenous rulers. It was not doubted that the people of this country were poor and that they could not bear the burden of the new administration. "It was doubtless an unfortunate necessity", observes Mr. J. W. Kay,* "that presented itself to us, but it was necessary to raise revenue for government. And it was necessary that in so doing we should subtract from the scanty means of subsistence enjoyed by the great mass of the people. It was doubtless a painful and deplorable fact, but benevolence could suggest no remedy for the evil —wisdom could find no substitute for the thing so grievously deplored". The fact was, therefore, unquestioned that the administration of the East India Company was too costly for the people of India and bore rather too hard upon the mass of the population. The evil was accentuated by the deplorable events of the Mutiny; and the satisfactory solution of the Indian financial problem became more difficult as it became more urgent. It was a moot question whether transfer of the Indian government from the Company's hands to those of the British Crown, would make the application of a proper remedy a practicable proposition, or the change would be one only in name. Mr. Wilson's efforts and the discharge of their new responsibilities by the British Parliament, must be judged chiefly from this point of view, as success or failure would depend upon a right understanding of the situation in India and upon the adoption of just and correct measures to cure the admitted evil.

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* "Administration of the East India Company."

CHAPTER III.

Mr. WILSON'S BUDGET SPEECH.

It would certainly not be unfair to say that Mr. Wilson had come out to this country with his mind practically made up to apply a radical remedy to what was regarded as a dangerous financial situation which this country had to face. He was, of course, not singular in taking this view; and Mr. John Bright than whom there was not in the British Parliament a more fearless and uncompromising critic of Government, was also of the opinion that conditions in India were alarming and imperatively needed a bold cure. He described the state of Indian finances as menacing and full of peril and thought that it was scarcely possible to conceive any thing in a worse condition. The remedies he had, however, to offer were quite different from those contemplated by the Government here or in England. The picture as it had been painted by Mr. Wilson, could not naturally make the same appeal to all; and there was a good deal to be said for the view of these who thought that the case had been exaggerated by the champions of additional taxation. It could have been fairly argued that the normal financial condition of India was absolutely sound and that had it not been for the enormous cost of the Mutiny and the extraordinary charges thrown upon the shoulders of the people of this country by those who governed it

without consulting the taxpayers and without considering the equity and the soundness of their policy, there would not have been much difficulty in balancing the revenue and the expenditure of the Government of India.

In presenting a financial statement in the House of Commons in February 1859, just one year prior to Mr. Wilson's presentation of his budget to the Legislative Council in this country, Lord Stanley took a very interesting review of the financial state of India, and though he did not deny in the course of it that the embarrassments of the Indian Government at the time were grave, he felt inclined to take a more or less hopeful view of the immediate future. He showed that 60 per cent. or three-fifths of the revenue of India was contributed by land and sayar and abkaree, which were not elastic sources of state income, and left it to the Government in this country to find out if it was possible to make a permanent increase in its resources by imposing suitable additional taxes. But one of the most important issues he raised in his speech related to his opinion that apart from the recent disturbances, the credit of India had steadily improved as was evidenced by the prevalent low rate of interest for State loans, that the public debt of the country was the direct outcome of the many wars which had been fought by the Government during the past fifty years and not of a deterioration in the material condition of India and that it was possible to reduce the number of British troops in this country and thus to save the Indian treasury a considerable

amount of military expenditure. The most ticklish question he raised, however, was whether it was not desirable for the British Government to lend to this country the help of its credit in order to relieve its heavy indebtedness. He did not indeed want to recommend, he put it rather cautiously, a change in the policy uniformly adopted and approved by the British Government and Parliament viz. to decline all responsibility in regard to the debt of India, and to hold it as a charge only on the Indian exchequer. He was aware that if a change in that policy were proposed it was sure to be summarily rejected. His immediate suggestion was, however, different and made a moderate and reasonable demand. He stated :-"Observing, then, that I do not speak with any reference to practical action at present, I would ask the House seriously to consider how far, looking at the fact that more than £ 50 million has been contributed in aid of the Indian Government by English capitalists it would be morally possible for this country to repudiate the Indian debt without shaking its own credit? I would likewise ask the House to bear in mind that, if ever the time should come when the established policy of Parliament in this respect should undergo a change, and when an Imperial guarantee should be given for these liabilities, that guarantee would operate to reduce the interest paid upon the Indian debt by not less than £ 750,000, or even £1,000,000 which, formed into a sinking fund, would go far to pay off the whole. At present, India on the one hand is paying a great deal more in the way of interest than with the assistance of this country she need pay; and we on the other hand, are apt to

consider that, as we have nothing to do with it, the amount is indifferent to us, though after all, it is a matter of doubt whether we are practically so entirely free from all responsibility as we suppose".

The claim of India to financial assistance from England was not so fantastic, unjust or unfair as it was represented to be; and it is important to understand the position clearly in as much as it had a direct bearing upon the solution of the financial problem in this country. In the first place, it could not be denied that some sort of ultimate financial responsibility rested upon the shoulders of the Imperial Government for the public debt of India, in as much as if for any reason this country was unable to find the interest payable to its creditors, that Government had to step in to set matters right. Secondly, an ultimate Imperial guarantee was calculated to improve the credit of India and save this country a large amount in the annual payment of interest. In the course of a debate in the House of Commons in March, 1859, Sir E. Perry suggested that India could be given the much-needed relief by England at once raising £ 40 million, the cost of the Mutiny, and practically contributing, without a sacrifice, the charge of the half lakh of British soldiers maintained in this country, which was £ 2 million a year. He said:—"If they were to take the cost of maintaining 50,000 or 60,000 European soldiers, the expenditure might be estimated at between £ 2 or £ 3 million; while the interest taken at 5 per cent. on the £ 40,000,000 which would be required as the cost of the rebellion, would amount to £ 2 million. Under

these circumstances, he asked the House as practical men whether it would not be better to lend the credit of this country at once, so as to raise the £ 40 million and allow the revenues of India to recover themselves, without imposing at a moment like this a heavy and crushing burden upon its resources".

This plea, of course, took it for granted, and we think very rightly, that it was unfair to saddle the people of India with the cost of maintaining a large European army in this country. Sir George Lewis pointed out that though it was important that the principle of the entire separateness of the Indian treasury from the British Exchequer should be adhered to as sacred, it was the duty of England to assist India by bearing a portion of this country's military charges, especially as in the agreement arrived at between Mr. Pitt and the East India Company it was never contemplated that this country should be made to bear the charges of such a large army as 90,000 European soldiers. He, therefore, proposed that England should pay a portion of the expenses of the Queen's troops quartered in India. He said:—"That would necessarily be a temporary expense. It is an expense, no doubt, for the maintenance of British sovereignty in that country, and it appears to me to be the most natural and most legitimate means of coming to the aid of the Indian treasury in the event of that aid being necessary." He was not, however, in favour of pledging wholesale the credit of England for the sake of India, and his grounds for it were contained in the following remark:—"If we, by the interposition of our credit and by our financial

assistance, make insurrections too easy and its consequences too light in India, we shall be teaching the people of that country a very dangerous lesson; and however painful it may be to us to continue or increase the fiscal pressure upon them, nevertheless it will be a wholesome reproof to them, after the mutiny they have so wantonly made against this country". Mr. Wilson, the future Finance Minister of India, strongly objected to the principle of the Imperial guarantee and could not "conceive anything more detrimental to India itself than to introduce a laxity into its financial economy and transactions," which would be fatal to the good government of this country. If a British guarantee were interposed, it was urged, it might raise the credit of India but that procedure would certainly depress the credit of England. Looking to the economic development of India he had not the slightest fear about the financial future of the country and he did not accept the position that the British Government was chargeable either with a guarantee of debt or with any portion of the cost and charges of India. Holding such views as he did, is it any wonder that Mr. Wilson regarded additional taxation as the only sovereign remedy for the dangerous financial malady of India?

But an effective reply was given to him by his colleagues in the House of Commons. As to his contention that there was a moral advantage in making the people of India pay the expense of putting down the mutiny as a guarantee of future good conduct, Sir Erskine Perry replied that from the nature of Indian taxation it was impossible to impose the slightest ad-

ditional charge on the people, or at all events, on the agricultural population, who were the parties involved in the rebellion. He made a very telling point by asking a probable question and answering it in this way:—"He was aware it might be asked, why should India get a guarantee when no other British colony has ever got it? The answer was that colonial debts were raised for colonial purposes, they were raised by colonies having self-government, and if those colonies ripened into independent states, the new country would take all the benefit created by the public works as well as the debt incurred in its behalf. But the Indian debt was not created for Indian purposes, but for the maintenance of English rule in the country. This debt was neither more nor less than the price of the conquest and reconquest of the country. If this were so, and the connection between the two countries was inseparable, why not raise the money in England, by which means they would secure two advantages—they would raise the money on cheaper terms and, without the slightest ultimate risk to England, allow India to recover itself, and a more healthy system of finance to be adopted, and secondly, by making it apparent that a defective system in India involved charges in England." Other members also tried to pin down the responsibility of India's debt, which had been caused mainly by the wars authorised by the British Government, to the shoulders of the British nation. Mr. John Bright, for instance, observed that there was no real justice in the people of England fixing the debts upon the natives of India. Some of the debts were incurred for the Afghan war, and by the

policy not of any one in India but by the policy of the English Cabinet. With regard to the Mutiny he thought that the £ 40 millions which the revolt would cost was a grievous burden to place upon the people of India.

The theory on which the financial policy underlying the government of this country was carried on seems to have been to make the conquest of territory after territory in India pay for itself. All the debts of the East India Company were thrown upon the shoulders of the Indian exchequer and even those which had been contracted to give effect to the policy of the Imperial Government, which had hardly even a remote connection with the interests of the people of this land. From moral, if not from other considerations, England was, therefore, bound to come to the rescue of the treasury of India and to shoulder a portion of her financial burden. The Mutiny was the work of the disaffected part of the native army and the Indian people as such had admittedly nothing to do with it. On the contrary, the bulk of the people supported the Government in suppressing the revolt, and it was extremely unjust and unfair to saddle the country with the cost of the rebellion. It had often been asked, even by men in high authority, "Why should England give financial help to India? What had England gained by the Indian conquest except opportunities of trading with that country which opportunities England enjoyed even with reference to other and independent countries?" Lord Stanley gave a good reply to these questions in Parliament in August, 1859. He said:—"But in examining the

financial relations of the two countries it is impossible to overlook the fact that for half a century past an immense number of Englishmen have been employed and supported out of the revenues of India; that those who go there are for the most part persons without fortune; and that they return, not all with great wealth, but still with a competence derived from Indian resources. I believe the amount of contribution, not to public, but to private necessities, from the people of India to the people of England, can not be taken at less than from £5 to £6 million sterling. Now, that is a sum which, in striking a balance between England and India, we can not fairly leave out of sight."

It will occur to any one that if such a view had been taken in England and if that nation had realised its obligations and responsibilities to the poople of this country, the problem of Indian finance would have immediately lost all its terrors and could have been solved without much difficulty. Mr. Wilson's task of reorganising Indian finances would have been rendered easier if the country had received from England the relief which was India's due. As it happened, Mr. Wilson had not a word to say in his financial statement regarding this important question, except emphatically to deprecate; an Imperial guarantee and to preach financial independence and he proceeded on the assumption that the Indian tax-payer must find the extra money that was needed to cover whatever deficit there might arise in the exchequer after such economies as he thought possible had been effected.

If India was to be thrown entirely on her own resources and left to make the most of the situation,

it was necessary that every effort should have been made to curtail expenditure before additional taxation was proposed. And the first item of expenditure that demanded attention was the Army. The postition in this respect was this:—"The amount of troops in India before the mutiny was of Europeans, including the officers of Native regiments, 45,552; of Natives, 2,49,153, making together 2,94,675. The amount of troops in August 1859, was, of Europeans, 1,10,320; of Natives, 2,07,765, making together 3,11,085, to which must be added police militarily organised, 89,829, giving a total of 4,37,914. Adding to this the soldiers in depots in England, viz. about 23,000, we get the grand total of a force of 4,31,600." It was certainly intended to reduce the European as well as the Indian troops steadily, but it was made quite clear that the number of European soldiers could not be restored to the pre-mutiny level. On the contrary, it was made plain that a larger number of those troops would have to be maintained in this country. The total expenditure for the Army, military police, new levies, police and military public works was as follows:—

1856–57	...	...	£	13,213,454
1857–58	...	...	£	17,215,674
1858–59	...	...	£	24,717,638
1859–60	...	...	£	21,732,681
1860–61	...	...	£	19,465,160 (budget)

Mr. Wilson felt sanguine that a great reduction could be made, not indeed in the pay and emoluments

of either the officers or the men but in numerical strength by a better distribution of the forces, by the enforcement of strict control in the commissariat and military expenditure, where supervision was weak and diffuse, and by reducing army finance to order. He suggested several directions in which reforms could be effected and laid particular stress on the imperative need of central financial control. The native part of the Indian army was being slowly disbanded and a strong police force was bein organised. The reduction of the number of the European troops appears to have been regarded as unsafe and in June, 1861, a member of the House of Commons complained that the maintenance of a force of 80,000 European troops in India was wholly unnecessary and that 50,000 would be amply sufficient to preserve tranquillity "if only the country were governed with justice and moderation, and endeavours were made to conciliate instead of to exasperate the inhabitants". He was also of opinion that the pay and emoluments of the officers and the soldiers must be lowered if the numbers were not going to be reduced and pointed out how when a regiment went out to India, the pay and allowances were at once doubled and the pay and emoluments of superior officers increased five or six times."

As to civil expenditure, far from holding out any hopes of reduction, Mr. Wilson, believed thatin no other country was the civil administration conducted at so small a cost and therefore thought that the civil cost of the government was more likely to in-

crease than to decrease. In the course of the debates in Parliament the possibility of the reduction of the salaries of the civil servants had always been denied on behalf of Government when pressed upon it by its critics. Mr. Vernon Smith, President of the Board of Control, had himself, in 1856, put in a strong plea for the reduction of civil salaries in India which, he declared, were higher than in any other country, and the arguments about disadvantages arising from distance from home and unhealthy climate, were shown to be hollow. "He knew of no other service in which a young man of twenty could enter at £ 350, or in which a person could rise from £ 350 to £ 4,000 per annum, and did not think that a reduction would be followed by peculation." At this distance of time his views may be read with great interest, and his reflections provide ample food for thought. He remarked :—"Economy was a very offensive virtue everywhere, but especially in India. Financial reformers had in England the support of the House of Commons and the public press; whereas in India the only public opinion was that of the civil service itself which was naturally averse from a reduction of its own salaries. It might be said, indeed, that the only person whose duty it was to preach economy was the unfortunate officer who bore the title of the President of the Board of Control."

Critics of the Government then pointed out as they have been doing ever since, that the higher services in India were paid unnecessarily large salaries and cited the instances of Ceylon and other countries where equally good work was done by the servants

of Government for a lower pay. Mr. Bright said that "the civil service of the Indian Government, like every thing privileged and exclusive, is a pampered body", and thought that except for a few good men, the service did not deserve the loud praise which was so frequently heard awarded to it. The substitution of the Indian agency for the European, was suggested as a remedy for economy and as a measure of justice to the children of the soil. But the reorganization of Indian finances which Mr. Wilson was specially sent out to accomplish, did not include this obvious reform. It would have gone against the grain of the mentality of the average member of Parliament and British citizen. An inquiry which had been ordered into this question, had resulted in a recommendation for an augmentation of civil expenditure rather than its dimunition. Mr. Wilson had certainly not allowed the grass to grow under his feet and had set on foot investigations into expenditure, military and civil ; but he was not prepared—he was not expected—to go into the fundamental question of meting out just and generous treatment to India.

Due credit must indeed be given to Mr. Wilson for the courageous effort he made to envisage Indian finances as a whole, to bring to bear on their imperative reform all his technical knowledge, his long financial experience and his trained judgment. When his appointment was discussed in England it was said that the first Indian Finance Member of the Governor General's Council would be armed with extraordinary powers which would enable him to supercede

the public officers of the Finance Department of India and to defy even the Governor General. It was, however, explained that Mr. Wilson would be "a member of the Council of the Governor General, taking charge of the Financial Department; but the Governor General and the Council would be responsible for his acts, because he would do nothing without their sanction and concurrence." Being sent out for a specific purpose and being specially qualified for the labour of love undertaken by him, Mr. Wilson was very properly given a certain amount of latitude and enjoyed freedom to think out and apply what remedies he thought best for the troubles of Indian finance.

He endeavoured to reduce to a system what was only a chaotic mass of ill-assorted and out-of-date financial practice. He applied scientific theory, tested by British experience, to the consideration of the complicated problems of Indian's financial and economic development. He was anxious to equip India with the latest and the most approved mechanism of financial management and to introduce into it a system of efficient internal and external checks. Finance is a powerful lever with which material progress may be promoted as it is a political weapon which may be beneficially used, or abused. Mr. Wilson realised this thoroughly and tried to act with a full consciousness of it. He may have misjudged certain things and failed to accomplish what he sought to achieve. But his fame rests upon the foundations he laid in this country of modern scientific finance, on which his successors grate-

fully built. We quote with hearty approval the following compliment paid to him by Mr. Hector* :—"Since the time of Mr. Wilson, no Finance Minister has grasped as he did the principles of Indian Finance. All that is best in the utterances of his successors, is but the echo of what he said. The extrication of the finances from the chaotic insolvency in which they were left by the Mutiny, the introduction of a sound system of note currency, and the settlement of the relations between Government and the Presidency Banks were no small achievements for a single year; but even more important than these measures were the broad lines of policy which he laid down, and on which he would have worked had he lived."

The breadth of Mr. Wilson's vision and the extensive sweep of his imagination are visible as much in the reforms he launched as a practical Finance Minister as in the speeches he made and the minutes he wrote. His introduction of a paper currency in India is an important landmark in the history of the finances and the trade of this country. It was a significant illustration of the spirit of reform with which he had been seized. Before that time the right of issuing notes was exercised by the Presidency Banks and a few Agency Houses, and their paper, which was not legal tender money, circulated within a very restricted sphere. By Mr. Wilson's bill which became an Act in 1861 and came into operation in 1862, Government issued notes from various

* "Indian Fiscal Administration."

circles to the exclusion of every body else. The speech he delivered in introducing the paper currency bill before the legislature, is another example of the remarkable lucidity of his exposition and of his thorough mastery of economic and financial subjects. Mr. Wilson did not indeed favour the introduction of a gold standard in this country, which was advocated by a large body of public opinion of his time and was warmly supported by his contemporaries and successors and by other high officials. He thought that a gold currency could have been considered as a question of practical politics if India had to write on a clean slate in that connection and that a change from the existing silver to a gold standard was likely to be attended with grave disadvantage than otherwise. Mr. Wilson had been a practical man of affairs, a publicist of repute, an official and a member of the British House of Commons. He had been associated with controversies relating to the Corn Laws, Currency Reform and other questions of public economic interest in England, and had he been spared longer, he would have assuredly done greater things in the realm of Indian finance. But as fate would have it, he passed away at Calcutta on the 11th of August, 1860 after a brief sojourn of less than nine months in this country. *

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* See Findlay Shirras: "Indian Finance and Banking."

CHAPTER IV

ON THE ANVIL

The proposals which Mr. Wilson had made regarding additional taxation, especially taxation of incomes and the licence duties, were not expected to go unchallenged. The novelty of the proposed taxes and their comprehensive and far-reaching sweep which would not let even the humblest classes of the community to escape, were bound to make them extremely unpopular. The taxes would, besides, come as an unpleasant surprise upon every one except those concerned in hatching them. The Mutiny had shaken the fabric of Indian society and government to their foundations. Large armies had been created and maintained at an enormous expenditure, and a huge public debt had been incurred in financing the supreme effort to quell the mutiny and to restore order. The nightmare had, however, passed away and the country had resumed its normal appearance. Every one, therefore, expected that the national finances would resume their old course and that the losses and the deterioration caused by the Mutiny, would be made good by the natural process of recuperation and improvement. People wanted peace and tranquillity and the restoration of the *status quo* which had been disturbed by the Mutiny. The prospect of being called upon to bear heavier burdens of taxation was the last

thing that could have been imagined by the public, and if forced on them, was sure to be resented as oppressive and unnecessary.

Indian administration was highly centralised, and the local governments of the provinces were jealous of and restive under the control of the Supreme Government and could not enter into the spirit of the motives and the policy determined by that Government for the acceptance of the whole country. Opposition to the scheme of taxation formulated by Mr. Wilson was not, therefore, confined to the public and particularly those hit by it; it emanated from the Provincial Governments as spontaneously and strongly as from the people who were directly affected by the taxation proposals. The Government of India had reason to anticipate such opposition from the provinces and thought it necessary to take the extraordinary step of addressing, on 9th March, 1860, a private and confidential communication to the Governors in Council of Madras and Bombay, setting forth the reasons which had led them to make the taxation proposals and asking for their support, and explaining that "the public interests will not allow the measures which we have proposed to be circulated in the ordinary way for observations thereon."

The communication practically repeated the arguments which had been emphasised in the budget speech of Mr. Wilson. It was contended that though it might be possible to restore the financial conditions as they were before the Mutiny by the reduction of the Army and other expenditure, it was neither possi-

ble nor desirable to stop there in view of the needs of social progress, such as the extension of education and the construction of useful public works like the railways and canals. While, therefore, growing expenditure was inevitable, sources of State revenue were not elastic enough; and hence the immediate need of providing additional sources of income in the best interest of the material and moral development of the country. In many cases the land revenue was so high as to be oppressive, and the limits of revenue from opium, the second largest branch of revenue, had been reached. Since 1857, the interest charge alone had increased by £ 2 million a year. The aggregate numerical strength of the Army in India might be reduced to the pre-Mutiny strength, but it was inevitable that "a very much larger portion of the army must be composed of Europeans, and consequently a considerable permanent increase of cost must be incurred." The position was summed up in the following paragraph:—"If, then, we take into account the insecurity of some of the existing branches of our present revenue: if we look to their proved insufficiency to sustain the expenditure of India even on the scale of establishments which existed prior to 1857; if we consider the impossibility of avoiding a considerable growth of expenditure in the civil departments of the Government, and the necessity of maintaining a more costly, but more efficient Army and Police, however much we may be able to reduce their numerical strength; and if in addition to all these considerations, we bear in mind the fact that the interest of our public debt represents a sum of two millions more

than it did in 1857, we can not hesitate in arriving at the conclusion that our duty as a Government necessitates a vigorous effort being made to improve the revenues of the State, from a source which can be better relied upon, and which will be capable of expansion or contraction according to the exigencies of the public service".

Before deciding upon levying direct taxation Government had weighed the dangers and the risks that had to be faced in allowing things to drift and in introducing, almost for the first time, a systematized plan of taxation in India. In all countries a radical improvement of the financial system had always provoked popular discontent and had even been attended with disturbances. That moment was particularly auspicious in India for encountering whatever difficulties had to be met. British authority never stood so high in India as at that time. It so happened again that there was a larger European force in the country than it was possible to maintain under any arrangements in the future, and in the event of any serious opposition sufficient military aid would be at the disposal of Government to put it down. Besides, this, the discussion which had already taken place regarding additional taxation had prepared the minds of the people for the imposition of the proposed burdens. Local Governments and a great portion of the Civil Service had examined and expressed their views on three measures, i.e., a bill for licensing trades, an income tax bill and a duty on home grown tobacco. The mea-

sures would now be proposed to the Legislative Council and an effort would be made to get them passed without delay. Opinions of local government had not, therefore, been called for afresh and the Government of India appealed to them to give all their support to the measures which were being undertaken for placing the country's finaces on a satisfactory footing.

The Governments of Madras and Bombay were not, however, impressed very strongly by the appeal or by the arguments addressed to them, and even the effort of Mr. Wilson fell flat on them. Sir Charles Trevelyan, the Governor of Madras, in particular, took a strong line of opposition. The hostile attitude he took up and the violation of official discipline into which he betrayed himself, ended in his recall. He and Mr. Wilson were stated to be rivals of a very long standing,* but no one doubted his sincerity or his great capacity. Mr. John Bright paid him the following compliment in the House of Commons:—"I have not an extensive acquaintance with Sir C. Trevelyan, but I believe him to be a very intelligent man and very earnest about the good of India, and anxious to do the best he can for that country. But he finds that at Madras he is like a man who is manacled, as all the Governors are. He is able to do almost nothing. But he has a spirit above being the passive instrument for doing nothing in the hands of the Governor General, and he has been disposed to make several changes

* This allegation made in the House of Commons, was subsequently withdrawn. See House of Commons Debates, 20th August, 1860.

which have looked excessively heterodox to those who are connected with the old Government of India, and which have shocked the nerves of the fifteen old gentlemen who meet in Leadenhall Street, and their brethren in India."* Sir C. Trevelyan wrote a lengthy minute on Mr. Wilson's financial statement. How he looked at the whole problem, will be clear from the following observation at the commencement of the document:—"The crisis is more pregnant with portentous results of good and evil than any which has occurred within the memory of the present generation. Upon the line now taken will depend whether the dearly-bought experience of the Great Mutiny will be used to construct a solid, safe and gradually developing political system, or whether India will be launched upon a new sea of troubles the opposite shore of which no human sagacity can discern."

Sir Charles spoke very highly of the financial statement of Mr. Wilson and said of it that the exposition was such a one "as Mr. Gladstone might have made to the present House of Commons. It includes all the latest improvements of modern finance, and would have been in advance of the House of Commons less than 20 years ago." But while the English budget could be discussed and criticised by the people through their representatives and carried into effect with their general knowledge and consent, "in India, notwithstanding a studious imitation of the forms of a

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* This praise bestowed upon Sir Charles was fully deserved. His enthusiasm had betrayed him into breaches of official etiquette and discipline, but only two years after his recall he returned to India as Finance Member and worthily filled that post.

popular assembly, we are further from a real representation of local interests than ever. Even the Government of the South of India, which is responsible for the administration, has no power of influencing the legislation. As regards the natives it is a leap in the dark. Till the tax-gatherer actually makes his demand they will have no conception of what has been prepared for them." Sir Charles pleaded that "comprehensive finance, which deals boldly with all existing interests, and readjusts taxation to suit the circumstances of the time, is the growth of Parliamentary system; and great danger is to be apprehended from its sudden introduction into India without the checks and safeguards which belong to the original institution." He pointed out that the tariff changes foreshadowed in the speech of Mr. Wilson were calculated to benefit European consumers in this country and manufacturers in England. Briefly put, his case was that the "financial crisis might be satisfactorily met by reduction of expenditure only combined with some obvious administrative improvements, whereby both our civil and military establishments would be rendered more effective, and the existing taxes would be more fully collected." He thought that the imposition of direct taxation on incomes would be opposed by the people, and quotations from Manu would have no more favourable effect on them than a quotation from the Canon law would have upon a country congregation in England suffering from the innovations of a reforming High Church clergyman. He doubted the wisdom of carrying out public works out of funds not supplied by surpluses

but taken from the proceeds of taxes. He concluded by showing that the Madras Presidency not only lived within its means but left a surplus to be contributed to the funds of the Central Government.

Lord Elphinston, Governor of Bombay, in his minute on the subject, spoke of the new taxes as, in this country unknown and most unpopular, and as sought to be imposed on grounds wholly insufficient to justify so extensive a financial experiment. Like Sir Charles Trevelyan he quoted figures to show how the provincial army was being reduced and thus the military expenditure was being cut down and how, therefore, it was necessary to avoid all hurry and not to rush into the hazardous experiment of a novel scheme of taxation. He concluded with the remark that "we ought sedulously to avoid fiscal innovations, and to rely for the improvement of our finances upon a judicious economy, upon the gradual development of the resources of the country, and upon the consequent greater productiveness of the existing sources of revenue." He did not think that new taxes were necessary at all and stated that if they had to be imposed, they should be the least obnoxious to the people.

The statements of the Provincial Governors and other officials were examined at the seat of the Central Government with a severe scrutiny and there were replies and rejoinders. The controversy increased in volume and intensity as the taxation bills proceeded on their course. The Government of India, in the course of their replies, exposed the

inaccuracies and misapprehensions into which Governments of Madras and Bombay had fallen in examining the financial statistics and regretted the attitude of hostility they had assumed. The Government of India tried to establish two propositions against the opposition of the Provinces. The first was that after all retrenchment and economy had been effected, the condition of Indian finances was certain to be unsatisfactory and therefore it was necessary to overhaul the finances and to widen the basis of the financial system. Secondly, the taxes proposed were not at all novel to the people of India as they had been represented to be and would not be felt oppressive by the public affected. The Government of India specially complained that its policy of financial reform was received with satisfaction and confidence by the public until it came to know of the opposition of the Governments of Madras and Bombay; and the latter were, therefore, responsible in a special manner for the alleged unpopularity of the new taxes. They maintained that far from the taxes proposed being novel and unknown to Indian custom, there was no part of British India in which under native rule, taxes upon the profits of trades and professions and license duties on artizans and small traders were not regularly imposed. There was ample evidence to show, it was pointed out, that in the Bombay and Madras Presidencies as also in the Punjab, taxes upon traders and artizans were a common feature of the fiscal systems of the indigenous rulers.

The situation was very curious. Those who opposed the taxes on incomes and artisans, did so on the ground that they were an innovation obnoxious to the sentiment and the traditions of the Indian people. The champions of those taxes turned the tables on their opponents by demonstrating th t the prevalent system of taxation itself was an innovation and that they were restoring the ancient and approved Indian fiscal system, which was, at that very moment, in operation in the Native States, by spreading taxation over all classes in an even manner. They said that when territory fell under British rule it was invariably found that the revenue of the Native rulers "was made up of taxes of all kinds, direct and indirect, and upon all classes, trader and agriculturist." The British Government retained and improved the land tax but abandoned the other taxes to the great detriment of the finances of the country. If those other taxes had been retained and improved, the financial difficulty which confronted the country at the time would not have arisen; and if it had arisen a remedy could have been easily found. It may be pointed out here that the so-called improvement of the land tax meant the screwing up of the State demand on the landlord and the cultivator to an oppressive pitch, and this fact was admitted by Mr. Wilson himself and was emphasised by the Government of Madras. The common taxpayer could not, therefore, derive much benefit from the remission of other taxes in view of the "improvement" of the land tax.

The tax system of pre-British times wss no doubt very comprehensive and covered a large number of imposts. But the British reform of fixed settlements of the land tax accompanied by the abandonment of the smaller taxes, did not give any appreciable relief to the taxpayer, making as it did for oppressive rigidity. With regard to the objection that the tax on incomes was the result of "the Government's thoughtless attempt to apply English ideas in dealing with questions having reference exclusively to the natives of this country," it was pointed out that all reform in India, educational and judicial as well as financial, had been conceived in accordance with the most advanced English ideas. And regret was expressed that "the same means of reforming the direct taxation of the country had not long ago been adopted, and we should in such case not now have had to encounter the anomaly of finding the great portion of the taxation paid only from one source and by one class, while the thriving capitalists, bankers, traders and others possessing large means contribute little or nothing to the State for the protection and security they enjoy in the various avocations from which their wealth is derived."

It will not be difficult to expose the plausibility of this argument in defence of the alleged application of English ideas to the administrative and material and moral development of India and its extension to financial reform. Unfortunately the application of English ideas was partial and depended more on exigencies of British rule than upon any lofty

principle. The old Indian system of finance, though apparently oppressive and full of uncertainty, had its own safeguards and was, therefore, elastic enough. The British system, regular and certain, was rigid and consequently oppressive beyond remedy. The Government which talked of its application of the most advanced English ideas to the judicial and the fiscal and financial systems of this country, did not think of applying those same ideas to the composition and the powers of the Indian legislature. The Indian people were given no representation in the government of their own country and could exercise no control over legislation and administration on the approved model of the British Parliament. Was it a British idea of reform and justice that the Indian public should have been effectively shut out from all participation in the discussion and decision of financial policy and measures? Sir C. Trevelyan had observed in this behalf:—"In framing our English budgets we never think of proposing additional taxation if the balance can be restored by reducing establishments. The transfer to this country of the forms of English finance is of much less consequence than the naturalization of the principles which are the basis of our national prosperity. We ought not to have one rule when we govern ourselves and another when we govern our Indian fellow subjects." The Board of Revenue, Madras, while appreciating the general principle underlying the Income Tax bill, rightly pointed out that the appliccation of a principle, however sound, must depend in practice on other considerations, and proceeded to remark:—"In a country like India, where

education has made very little progress, where the people are not represented, and where, as recent events have lamentably proved, the governing power is utterly ignorant of their feelings, the Board apprehend that the adoption of a principle must depend on its safety and acceptability to the people as much as on its wisdom."

It would indeed have been worth the while of the Government to run risks in introducing into this country British ideas of national progress and of political and economic development. Government did take risks in certain matters, but in others it remained stolidly conservative, with the result that the progress of the country tended to become one-sided and unconscionably slow. While, therefore, the construction of railways was pushed on, free trade was encouraged and land revenue was systematised, the growth of indigenous industries was neglected and the needs of the solid material and moral progress of the people were ignored. Even the show of independence on the part of the members of the Legislative Council such as then existed, composed entirely of European officials, was resented. It has taken Government full sixty years to grant to the representatives of the people a little power of financial control over only a very small portion of the administration, and this after profuse talk about the application of British ideas to the problems of India, indulged in over a period of two generations! In the course of the debate in the Legislation Council on the bill for licensing trades and professions, Sir Charles Jackon—a Judge of the Calcutta Court, had

asked for information as regards the strength of the Army which the Government intended to maintain, and Mr. Harrington who represented the Government of India, took him to task for his arrogating to the legislature powers of control which belonged to the executive and such as the British House of Commons could exercise over the executive government in England. Sir Charles took strong exception to this principle laid down on behalf of Government, and was constrained to exclaim that the doctrine, if accepted, would render the existence of the Council a mere farce. This episode throws very interesting light upon the pace and the manner of the application of British ideas to the development of India.

As was to be expected, Mr. Wilson's proposals which were embodied in the income tax bill and the bill relating to the license duties on trades and artisans, encountered widespread criticism, varying in the intensity of hostility. There were animated debates in the Legislative Council and it required all the skill and capacity of the Finance Member to pilot the bills through the rocks and shoals of opposition to the port of success. The protests proceeded both from the inside and the outside the legislature, and the discussions were of special interest in as much as they related to the innovation of a broad-bottomed scheme of direct taxation of different classes of the community. It was a radical measure of financial reform which touched the people at various points and involved the setting in motion of a complicated machinery of tax assessment and collection. The novel scheme of

taxation invaded vested interests, attacked popular prejudices, threatened vexatious interference with the private lives of the people, extended to agricultural incomes, small and large, and did not exempt even the petty artisan and rayot from its incidence while it also brought the big Bengal Zamindar into its net. It took the British public more than two generations to be reconciled to the direct taxation of incomes, and it was after a prolonged struggle in which the pens and the tongues of several persons had been constantly engaged that the income tax became a permanent feature of the fiscal system of Great Britain. The idea of direct taxation to be imposed for the purpose of meeting recurring deficits and of placing Indian finances on a satisfactory basis, did not, however, originate with Mr. Wilson. The question had been long debated and schemes of direct taxation had been elaborately canvassed. A bill for the licensing of trades and professions was actually introduced into the Legislative Council in August, 1859 and was discussed at length. The measure encountered a strong gale of criticism and its further progress was arrested by the difficulties it met with and by the appointment of Mr. Wilson whose hands it was thought unfair to fetter with schemes of fiscal reform to accomplish which he was specially coming out. As the above bill evoked a full discussion of the theory and the practice connected with direct taxation in India and raised the whole question of the position and the prospects of the finances of the country, some time before the arrival of Mr. Wilson in this country, a brief account of that measure will not fail to be instructive at this stage.

The idea of seeking new sources of revenue for meeting the heavy expenditure which was caused by the Mutiny, was some time in the air, and the ground was being carefully explored by Government. In a minute written in June, 1859, by Mr. Martin Gubbins, an officer of the N. W. Provinces, the possibilities of as many as twelve different taxes were examined; and an enumeration of these will give an idea of the extent of the field that was sought to be covered. The taxes considered were:—an income tax upon bankers or sahukars as distinguished from traders, calculated on their capital or profits; a succession duty on landed proprietors, muafeedars and other classes; an excise duty on tobacco; an increased duty on salt; a duty of 2 annas per maund on all grain; a tax on fish or fisheries to be farmed out; a license duty on all trades and professions; and lastly, a house tax. All these taxes simultaneously or as many of them as possible, were to be levied. The tax on bankers, traders and shopkeepers, it was expected, would be shifted on to the consumers, and numerous well-to-do classes that could not be reached otherwise, were to be made to pay taxes to Government through taxes on their articles of consumption. Merchants and banias were thus to be made the excisemen of the Government. This tax would have the advantage of being very productive as it would require little additional establishment to collect it. It was likewise a tax which the merchants and others were in the habit of paying under the old Indian governments. The opposition of the classes affected by the tax, which was inevitable, "will yield

to nothing but a conviction that we are resolved to carry out the measure, even at the point of the bayonet." The 86 leading banking and trading firms of the city of Agra were calculated to give about one lakh of rupees and taking the yield of the assessments on traders, shopkeepers &c. in that city and the district at half a lakh, the 26 district of the N. W. Provinces would produce no less than 39 lakhs in all. The succession duty was to be a concommitant of the license duty and was to be levied on landlords and capitalists. Many wealthy persons who were not subjected to the license tax were to be reached by the succession duty.

Mr. Harington framed a bill for licensing trades and professions and moved its first reading in the Legislative Council on 13th August, 1859. It divided assessees to the tax into ten classes paying Rs. 2 to Rs. 2,000 annually. In making the motion he explained why the measure had become necessary and tried to answer the objections which had been raised or were likely to be raised against it. The license that traders and others were to be required to take out on payment of a fixed sum, was obviously intended to augment the revenue of Government and was not required for police purposes or for the convenience of the public. The urgent need of the movement was to find suitable means for equalising the income and expenditure of the State. Every effort was being made to reduce expenditure, both military and civil, but the requirements of efficiency dictated that retrenchment and economy could not be carried beyond

a certain limit with safety. Then as regards attempts to increase the sources of income, customs duties on imports and exports had been only recently raised. This measure was calculated to put heavier charges upon the European community and showed that in imposing additional burdens Government had begun with their own countrymen. Among other taxes suggested, Government deliberately refrained from taking up an income tax and a succession duty on the ground that they would prove extremely vexatious and harrassing and repugnant to the feelings of the people, especially as regards personal property; and as to land, the legality of the tax in Bengal was questioned and the land revenue elsewhere could be raised at each revision settlement, if that was found necessary and equitable. The house tax and the tobacco duty required further investigation, and salt and stamp duties were already being considered with a view to their enhancement.

One important consideration in favour of the proposed tax was that "in so far as native traders were concerned, it introduced no new principle but merely revived one of their own modes of taxation. In Bengal all traders were taxed under the head of "sayer", and when the sayer duties were abolished, it was presumed, Government reserved to itself the right to revive the tax upon traders at any time. In Madras Presidency a similar tax known as the Mohturfa was at that very moment in existence and yielded about 12 lakhs a year. But the mode of its assessment and collection was extremely unsatis-

factory. If the proposed bill was passed, that tax could be abolished. The moderation of the incidence of the tax was calculated to free the measure from those objectional features, such as vexatious inquiries into the circumstances and profits of every trader and professional man, which were associated with the income tax. As Adam Smith had stated, a considerable degree of irregularity might be supported in a light tax while in a heavy one, it was altogether intolerable. The man who would be called upon to pay the tax, would transfer it to his customer, and as it would be spread over the whole population in proportion to their expenditure, it would be scarcely felt. The rich man would not mind it; the poor man would have to pay very little.

In the course of the debate in the Legislative Council, some of the members, as indicated above, indignantly protested against the piecemeal fashion in which Government were dealing with the question of fiscal reform by nibbling at new taxes and the half-hearted manner in which they supplied information regarding the true state of the finances and their intention relating to taxes other than those actually proposed. Strong exception was likewise taken to the exemption of salaried officials and landholders from the scope of the tax. On the motion to read the bill a second time, the announcement was indeed made on behalf of Government that it had always been its intention to cause a deduction to be made from all official salaries by a percentage which would be 3 per cent. as in England, the salaries protected by

Parliamentary statute alone being excepted. As Sir Charles Jackson observed, his objection was not to an income tax but to an Act which affected certain classes of income and not others. He remarked that whatever name might be given to the tax, whether an income tax or a license duty, it was in fact, nothing more or less than an income tax of 3 per cent. on certain trades and professions. The serious defect of the tax was that it exempted incomes derived from land, interest derived from Government securities, statutable salaries, and all incomes derived from rents of houses.

The concessions granted and the amendments made in the bill by Government to meet public wishes, did not go far to satisfy the people, and protests from various parts of the country poured in on the legislature. Petitions and protests went up from Calcutta, Bombay, Madras and Poona, and they took up the same ground substantially as has been above indicated. The position will be made clear by the following extract from one of the petitions:—"The bill, as it originally stood, applied only to trades and professions, and for which it established a scale of licenses varying in ten classes, from two thousand rupees the highest, to two rupees in the lowest, per annum; and no rule was laid down to guide the Collectors in classifying the taxable individuals; in other words, the Collectors had to decide who should pay two rupees, who two thousand rupees, or any intermediate sum. Your petitioners find that in the amended copy of the bill the classes are increased from ten to seventeen, and the scale is raised up to

five thousand rupees, and the principle of applying the tax as an income tax is introduced into the bill. Your petitioners refer to the new clause by which the Collector is required to class his taxables in such a manner that the sum to be paid for the license shall approximate as nearly as may be to three per cent. on their annual profits or gains by trades and professions. Moreover, an income tax of three per cent. on official incomes is introduced in the bill for all civil servants of Government and military officers in staff employ whose incomes amount to one hundred rupees per month, and which said tax is to be deducted from their pay bills." The petition went on to object to the exemptions of certain classes which were still retained as invidious and repugnant to all sound principles of taxation and ended with the demand that if necessary the bill should be replaced by a projeet of taxation which shall press equally on all incomes, howsoever derived, of a proper taxable amount, and on all classes of people." Mr. Harington's bill was not proceeded with after it had made some progress, and the reasons for this were, in his own words:—"Shortly after this, the probability of the appointment of the Right Honorable gentleman (Mr. James Wilson) to be member of the Council of the Governor General of India became known to the Government of this country, and from the time the appointment was made, he (Mr. Harington) felt that it must rest with the Right Honorable the Governor General and the other members of the Government, to determine upon the course which it would be proper to pursue in respect to the bill brought in by him, and that thenceforth the matter was taken out of his hands."

The criticisms with which Mr. Harington's bill had been riddled in and outside the legislature, were calculated to warn and guide Mr. Wilson's path when he set out to tackle the problem of financial reconstruction and reform. Various objections had been raised against the scheme of taxation which had to be abandoned. By some the very necessity of levying additional taxation was called in question, and England was asked to make good Indian deficits which had been caused by her policy and under her management. Others thought that the proposed tax was inopportune, invidious and unjust on account of the inequalities it created in the contributions of classes and individuals. The bill was thus attacked on the ground of principle as well as on that of the details of its assessment and collection. Some would indeed have preferred an income tax on the British model to a partial measure like the one proposed. In any case, Mr. Wilson had to prepare for a cross fire of objection and criticism unless he could manage to do without fresh taxation altogether.

CHAPTER V.

THE INCOME TAX.

We may now assume that with the Government the question of the possibility of rehabilitating the finances of India with the help of mere retrenchment and economy and without the imposition of fresh taxation, was no longer open. What was open to discussion were the details regarding the assessment and collection of the taxes it was proposed to levy on incomes and on trades and professions. Government had persuaded itself into the firm conviction that it would be a grave dereliction of duty on its part if it allowed the finances of the country to drift on to a disaster in the face of the certainty that civil expenditure was bound to grow, that with the necessity of having to maintain a reduced but efficient Indian and European force and police, the military expenditure could not be very much cut down and that the additional interest charge of two million sterling a year—the cost of the Mutiny—would be a permanent burden upon the exchequer for many years to come. The duration of the Income tax was to be limited to five years because Government believed that the revenues of the State would show a sufficient improvement during that time and the new system of annual budgets, estimates, issues and audit which had been just inaugurated, would have enough scope to show substantial results by the check they were calculated to have upon every branch of public expenditure.

The imperative necessity of additional taxation once assumed, it had to be demonstrated that the income tax and the license duties which had been proposed, were the most suitable forms of taxation and that there was no alternative scheme of raising public revenue that could be adopted. Transit and towns customs duties had been by some suggested as substitutes as being more in unison with ancient customs. But they were rejected on the ground that they put barriers and impediments in the way of commerce and communication which facilitated material, moral and social development. A succession duty also could not be acceptable because it was more objectionable than the income tax owing to its inquisitorial and harrassing nature. If the duty applied only to land and real property, it would aggravate the most glaring defect of the existing tax system which drew so disproportionately from the land; and if it applied to personal property also, it was equally objectionable because, as Mr. Wilson put it ,the "difficulty of assessing the hidden wealth of rich natives to a succession duty would be enormous aggravation of that of assessing annual income." A succession duty had been recently tried in England and had, even in that country, failed. In 1853 Mr. Wilson was partly responsible for a succession tax imposed by Mr. Gladstone as one of the means of repealing the Income tax, but it proved unproductive. Town duties would, besides, fall almost exclusively on Indians and the succession duty would likewise have to be borne by Indians, Europeans escaping scot free. These taxes thus violated the important principle of equality of

incidence of taxation upon all classes alike. The Income tax, on the other hand, Mr. Wilson contended, would have to be paid by all and strictly in accordance with the means of each. The property of the poor was entirely spared; modest incomes were to be taxed sparingly and large incomes freely.

The opponents of the two proposed taxes, objected to them chiefly on the ground of their novelty and their unsuitableness to Indian conditions as also of the apprehension that they would be obnoxious to the sentiment of the people. Their champions, on the other hand, maintained that the taxes were perfectly in consonance with Indian feeling and in keeping with the practices and the traditions of the country. Mr. Wilson had made minute inquiries into the fiscal systems of the indigenous rulers and in his budget speech, had quoted Manu and Kalidas in support of his proposals and the theory underlying them. He had, therefore, behind him the authority not only of the ancient law-givers of India but that of the actual practice followed by the rulers of the country in recent times and by the princes and chiefs of his own time. A careful examination of the evidence afforded by ancient Indian literature would leave no doubt on one's mind that Mr. Wilson was right, so far as his argument went, and contemporary evidence also was calculated to lead one to the same conclusion.

The ancient Hindu law-givers in prescribing the duties of the king and of the different classes of the community, have stated what the ruler is entitled to take from his subjects for the protection he gives them.

They have obviously crystalised in the form of rules or injunctions the practices that prevailed in their time; and we can deduce from them the principles which animated the Indian fiscal system of olden days. Manu, for instance, whose laws were quoted by Mr. Wilson, says:—"After (due) consideration the king shall always fix in his realm the duties and taxes in such a manner that both he himself and the man who does the work receive (their due reward)"[1] VII, 128. It is here expected that the tax, while it should be sufficiently productive to the king, should leave to the tax-payer a just reward of his labour. Manu goes on to lay down:—"As the leech, the calf and the bee take their food little by little even so must the king draw from his realm moderate annual taxes"[2]—VII, 129. The king is here enjoined to extract from his people the subsistence he requires in a way that will not be felt oppressive by them. He is not to "cut up his own root (by levying no taxes), nor the root of other (men) by excessive greed; for by cutting up his own root (or theirs) he makes himself or them wretched"[3]—VII, 139. It is in the interest both of the king and the subjects that the taxes should be moderate. Taxes were to be paid by traders, cultivators, artisans and even labourers, the latter paying in the shape of

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1 यथा फलेन युज्येत राजा कर्ता च कर्मणाम् ।
तथावेक्ष्य नृपो राष्ट्रे कल्पयेत् सततं करान् ॥ ७ १२८ ॥

2 यथाल्पाल्पमदन्त्याद्यं वार्योको वत्सषट्पदाः ।
तथाल्पाल्पो गृहीतव्यो राष्ट्राद्राज्ञाब्दिकः करः ॥ ७ १२९ ॥

3 नोच्छिन्द्यादात्मनो मूलं परेषां चातितृष्णया ।
उच्छिन्दन्ह्यात्मनो मूलमात्मानं तांश्च पीडयेत् ॥ ७ १३९ ॥

their manual services[4] VII, 138. Traders were to pay duties subject to allowances for certain charges they had to incur[5] VII, 127. The king was to take "a fiftieth part of (the increments on) cattle and gold, and the eighth, sixth and twelfth part of the crops".[6] VII, 130. As will be seen from the extracts from commentaries given in the footnote, in assessing the tax on land produce, the situation of fields, the quality of the soil and the labour of cultivation were to be duly taken into consideration. The ruler was likewise to take the sixth part of trees, meat, honey, clarified butter, perfumes, (medical herbs) substances used for flavouring food, flowers, roots and fruit"[7] VII, 131. Leaves, grass, objects made of cane, skins, earthen vessels and articles made of stone were similarly to be taxed.[8] VII, 132.

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4 कारुकान् शिल्पिनश्चैव शूद्रांश्चात्मोपजीविनः ।
एकैकं कारयेत्कर्म मासिमासि महीपतिः ॥ ७ १३८ ॥

5 क्रयविक्रयमध्वानं भक्तंच सपरिव्य म् ।
योगक्षेमंच संप्रेक्ष्य वणिजो दापयेत्करान् ॥ ७ १२७ ॥

6 पंचाशद्भाग आदेयो राज्ञा पशुहिरण्ययोः ।
धान्यानामष्टमो भागः षष्ठोद्वादश एववा ॥ ७ १३० ॥

मेधातिथिः– मूल्याधिकयोः पशुहिरण्ययोः पंचाशद्भागो ग्राह्यः । धान्यानां भागविशेषः सुकरदुष्करापेक्षया मंतव्यः ।

कुल्लूकः– भूम्युत्कर्षाप*र्षापेक्षया कर्षणादि क्लेशलाघवगौरवापेक्षः अयं बव्हल्पग्रहण विकल्पः

नंदनः– सर्वत्र व्ययव्यतिरिक्त लाभविषया भागकल्पना । भूमेर्मध्यमोत्तमाधमापेक्षया व्यवस्थितविषयोयमष्टमादिको विकल्पः कल्पनीयः ।

7 आददीताथ षड्भागं द्रुमांसमधुसर्पिषाम् ।
गंधौषधि रसानांच पुष्पमूलद्लस्यच ॥ ७ १३१ ॥

8 पत्रशाकतृणानांच चर्मणां वैदलस्यच ।
मृन्मयानांच भांडानां सर्वस्याश्ममयस्यच ॥ ७ १३२ ॥

The law-giver Gautama is brief and explicit in his rules on this subject. The king must live, according to him, on the surplus that remains after the defence from external enemies and internal peace and order are provided for so that he ought not to apply an unduly large portion of the revenue of his realm to his personal expenses. Cultivators pay to the king a tax amounting to one-tenth, one-eighth or one-sixth of the produce. There is also a tax on cattle and gold to the extent of one fiftieth of the stock. The seller of merchandise is to pay one twentieth as duty. Articles like roots, flowers, grass &c. are also subject to taxation. In return the king must perform his duty of protecting the taxpayers, and he must pay particular attention to the collection of the taxes, so that there may be no leakage and no oppression at the hands of the tax-gatherers:—(X, 24–30.)

The above quoted injunctions leave no doubt on one's mind that the ancient tax system was comprehensive, and levied a toll upon all classes of the community alike and amply bear out the truth of the argument of Mr. Wilson referred to. There was an equitable distribution of the burden of the expenditure of the ruler among cultivators of land, traders, artisans and labourers, and no class of society escaped except the "shrotriya" or the learned Brahmin whom it was a sin to touch, and the blind and the maim. Almost all the canons of taxation which are approved by modern economists, are clearly reflected in the rules of the Hindu law-givers. Every subject is expected by them to contribute to the expenses of the state, as far

as possible, an equal share of his wealth. Economic life was, in those days, and has been till recently, very simple in India, and therefore, the tax system was also very simple. Taxes were paid in kind, and in the form of services, and in this way the king became entitled to receive from all classes of his subjects a share of whatever they produced or earned. It was not difficult to apply roughly the principles of equity and equality in the assessment of the taxes. The theory of faculty or ability was, so to say, unconsciously put into operation and equality of sacrifice was not difficult to get at. Land has been in India the principal source of the wealth of the people, and naturally it has had to make the largest contribution to the exchequer of the state. But the trader and the craftsman had likewise to pay their quota to the public treasury. Every effort was made to take into account the cost of the production of wealth to the taxpayer, so that his net income might be taxed. Adam Smith's canons of taxation relating to convenience, it was easy to follow owing to the simple methods of wealth production, the cultivators and others paying a well-defined share of the output of their labour when and as they produced different forms of wealth. The canon about economy in the assessment and collection of the taxes was observed by a due attention to honesty, trustworthiness and efficiency on the part of the officers of the king. When the king was in financial straits, he was entitled to take, as an extraordinary measure, a larger share of the wealth of the people to tide over the difficulty. Manu says that the king who in times of distress takes even the fourth part of the

crops of the cultivator, is free from guilt, if he protects his subjects to the best of his ability. In such exceptional circumstances he may take from Vaishyas one eighth as the tax on grain, one twentieth on the profits of gold and cattle; and shudras, artisans and mechanics are expected to help him by doing work for him (X, 118–120).

It is not for a moment suggested here that all the above excellent fiscal rules were strictly followed by all rulers and at all times. There must certainly have been exceptions, and often fiscal oppression too. But the comprehensive system of taxation described above was the one that was generally approved in India, and it was such as to appeal to our sense of justice and fairness, and as conformed to modern canons of taxation. How universally these fiscal principles were accepted, may be seen from the fact that they are found to have been endorsed by Hindu writers on the art of administration, statecraft and sociology like Chanakya and the author of Shukraniti and that they were acted upon by Indian rulers, Hindu and Mehomedan alike. This system of taxation continued to prevail in India till under British rule, a change in the political, social and economic conditions necessitated a substantial modification of the whole. In the course of the inquiries which Government made into the indigenous system of taxation and the practicability of introducing direct taxation of incomes of traders, bankers and artisans, it found that that form of taxation was very common in the country, and that as a matter of fact, in parts of Madras, the "Visabadi"

tax was being collected on the profits of trade (in the Ceded Districts) and the "Mohturfa" was being levied on the profits of persons exercising manual arts and professions. Several revenue officers of the Madras Presidency who were consulted as to the manner in which the people were likely to receive the tax proposed to be levied on trades and professions in 1859, reported strongly in favour of the measure. A few extracts from their reports will be found interesting.

One officer stated :—"A tax on the profits of trades and professions is undoubtedly sound in principle, and being in its nature familiar to the people of this country, it would be more acceptable generally and therefore more expedient, than taxation in some other form, foreign to their habits and customs, and consequently distasteful as an innovation. I believe the Visabadi tax of the Ceded Districts to be as cheerfully paid as any tax could be and that its extension to other districts would cause less dissatisfaction than the levy of an impost, more perfect in theory, but to which the people are unaccustomed." This officer thought that the strongest objection to the existing taxes was the fact that they pressed on the petty trader and the struggling artisan while the goxernment allowed the rich to go free. He, therefore, preferred the new tax as in every way superior in as much as it would reach the wealthy and exempt the large body of the industrial classes whose profits only sufficed for a bare subsistence. Another officer wrote :—"The Visabadi of the Ceded Districts was assessed, in the aggregate,

on the principle of 10 per cent. on the profits of trade, and the sum to be paid by each individual was settled by the body of merchants aided by the Government officers." Many other officers wrote in the same strain, and the burden of their reports was that the proposed tax would have no novelty about it from the point of view of the people, who understood that form of taxation very well and were not likely to complain if it were to be extended.

Similar evidence was quoted from Bombay and other provinces to show that the view expressed by some to the effect that Mr. Wilson's scheme of taxation was entirely "on the English model", that the taxes he proposed were utterly unsuited to India, and that his plan embraced the "introduction" into India of direc taxation as if it were a perfect novelty, "calculated to arouse all the Natives' latent feelings of opposition", were wrong and misleading. In one of his minutes replying to the official and non-official criticisms of the new taxes, Sir H. B. E. Frere observed :—" It seems to be forgotten that upto 1834–36 taxes on incomes, trades and professions were levied almost universally throughout British India under various names, and that they were then abolished in parts of Bengal and throughout the North–Western Provinces and Bombay, not because they were in theory bad taxes, but because they were so unfairly assessed and unequally levied, that it was difficult to reform them in their then existing shape. Many able men then advocated their retention, after a thorough reform; but they were not then needed."

Sir H. Frere then went on to point out how in the Native States the direct taxes were levied as of old and remarked:—"Moreover, the universal practice of a well-governed Native State, in extricating itself from financial difficulties, caused by war or famine, by past extravagance, or present demand for more than the current income will afford is, mutatis mutandis, strikingly in accordance with what is now proposed for all India." He then soared on the wings of fancy and imagined Mr. Wilson, the *Pradhan*, as it were, representing to his *Raja* the absolute necessity of levying an extraordinary tax upon all classes of the people. The king having discussed the matter in his *durbar* and having a scheme drawn up, the subjects are presuaded to consent to pay the sums to which they are assessed by themselves for meeting a temporary emergency. This was a fine fancy, but the dreamer failed to take account of the fact that the realities of the situation of the administration of the British Government, did not answer to the flights of his imagination. The Indian legislature was not an Indian durbar; a mockery as it was, there was not a single Indian on it, landlord, trader or professional man. It did not discuss the financial situation in the presence of the British king and did not assent to the taxation proposals of his Pradhan.

It is perfectly true that under the indigenous system of finance, which had come down to the British period of Indian history, practically in an unaltered form, taxation was all-pervading, and the Mahratta government, for example, was no exception to the rule. In his Introduction to the Peshwas' Diaries, Mr. Ranade

gives an account of the financial system of the Mahratta government, and it amply bears out the truth of the above statement. Mr. Elphinstone, in his Report on the Territories conquered from the Peshwa, likewise mentions numerous taxes such as the Moh-turfa tax on stalls at markets and fairs, a tax on potters' earth, a house tax, a tax on weights and measures (levied from traders), a tax on marriages, a buffalo tax, and taxes levied on sellers of hides, charcoal, ghee, ropes etc., in kind. Mr. Elphinstone did not propose to abolish these taxes with the exception of a few that were regarded as most objectionable. Sir H. Frere stated that he found more than 60 separate and distinct taxes of the nature described above still levied in Poona City alone, when he was directed to inquire into them in 1836. This only demonstrates that the traditional system of Indian finance had undergone no change long after the introduction of British rule into that part of the country.

It is, however, possible to endorse only partially the view expressed by Sir. H. Frere on the acceptability of the taxes on income, and arts, trades and professions, as follows: "Altogether I doubt" says he, "whether there is any part of India where an income tax and taxes on arts, trades and professions are as much a novelty as the income tax was in England when reviv-ed by Sir Robert Peel; certainly there is none where such taxes are as new to the people as the income tax was in England, when first proposed by Pitt as a regular part of his financial system". It may be stated here that the British financial system was not more

or less unlike that of India before the end of the eighteenth century. That system rested upon a multiplicity of petty taxes on expenditure, as direct taxation was looked on with disfavour and indirect taxes alone were regarded as just and suitable. Pitt had long to be content, even after the war with revolutionary France had taken a serious turn, with the so-called 'assessed' taxes, and it was only when the struggle threatened to assume a dangerous form, from the financial point of view, that he framed his scheme of an income tax. It was undoubtedly a novel tax as instead of being levied on expenditure, it was imposed on the entire income of the individual. It aroused great hostility and was tolerated only as an evil of temporary duration. The tax was repealed in 1802 and was reimposed next year on the reopening of hostilities. It was dropped in 1816 to be revived in 1842 by Sir Robert Peel. The tax was regarded, right up to 1874, as a temporary makeweight of finance, but for one reason or another it could not be abandoned and became a permanent feature of the British tax system.

A tax on incomes distinguished in four different schedules as proposed by Mr. Wilson, was undoubtedly a novelty in India and was not a common impost, as Sir H. Frere sought to make out, with which the people were familiar. It was as a dire necessity that Pitt had ventured to levy it in England. And Peel was, for several years, opposed to it before he was driven to revive it in 1842. India did not certainly stand in the same awful predicament in 1860 as England did in 1799 or in 1803. There was again

a smaller chance of the success of an income tax in this country than in England. The fact that the Indian people were familiar in certain parts of the country with a tax on the profits of traders and on the products of the labour of artisans, should not have led the Government of India to look upon an income tax generally as a desirable and a practicable impost. But Mr. Wilson appears to have his mind full of English experiences and ideas and he attempted to copy the policy of Peel. His scheme of taxation and the arguments with which it was supported, bear a close resemblance to those of that British statesman. "It will be remembered", says Mr. J. F. Rees,* "that Peel wished to revive the income tax not only to meet the deficit but to undertake extensive fiscal reforms, which he hoped would lead to greater prosperity, that is, it was to wipe out the old deficit and to provide against the emergence of a new one as an immediate result of the simplification of the tariff". Mr. Wilson lowered the tariff to achieve a freer trade; he was anxious not only to wipe out the current deficit but to provide a surplus that would prove serviceable for various material improvements. With a population less than one twelfth of British India, England paid to its Government in the way of a tax on incomes, in the very first year of its imposition, six times more than India did in 1860–61.

Mr. Wilson's income tax may be said to have had at least the merit of being a bold effort to introduce

* "A short fiscal and financial history of England."

into this country the British system of direct taxation though the conditions necessary for success were wanting in it. But the revival of the tax on arts, trades and professions had little in its favour. That and other similar taxes had been abolished as vaxatious without being productive years before Mr. Wilson's time, and it could hardly be called a fiscal reform to take out of the taxational armoury a relic of a bygone, barbarous age. In fact, it very soon proved to be a useless fiscal weapon, and had to be thrown aside. The two taxes were objectionable on very important grounds. A tax is not a suitabte tax unless its productivity is a sufficient set-off against the harrassment and hardship it is calculated to cause to the people. The game is not worth the candle if a tax while causing a maximum of trouble to the public, produces a minimum of amount compared to what is required. The tax on incomes, and particularly the license duty, was seriously open to this objection. The first was perhaps good in theory, and the second, it may be admitted, was in consonance with the practice of indigenous governments and the sentiments of the people. But both violated some of the very fundamental principles of taxation. The idea that the moneyed classes and others who escaped the burden of taxation which in justice they ought to bear in common with the small cultivators and other humbler members of the community, should be made to contribute their proper share towards the expenses of Government, may be heartily supported. But the pertinent question was, were the proposed taxes suita-

ble from the point of view of practicability and were they free from the grave defects which must be avoided by wise statesmen and administrators? Mr. Wilson did not realise what many of his contemporaries pointed out and what his successors experienced, viz. that the taxes would not yield sufficient revenue to justify the trouble and the discontent they would cause to every one concerned. The result, therefore, was that the tax on arts, trades and professions, though it was passed by the legislature after a prolonged discussion, was never levied and the Act in connection with it was repealed shortly after its enactment.

The Income Tax Act wás too complicated for the people to understand and too difficult for the officials to work. It had to be amended within a few weeks of its enactment, and the question of its radical alteration or repeal had to be seriously considered by the Government. The reports of the district officers were more or less optimistic and took a favourable view of the position and the prospects of the Tax. Still a closer observation did not fail to drive the conviction to the mind that the tax had, on the whole, failed. Some of the officers themselves who had to do with the assessment and collection of the tax, made no secret of their opinion about the unsuitableness of the new impost and their experience of the working of the measure more than confirmed the apprehensions of its critics. Mr. J. Gibbs, Special Commissioner for Income Tax, Bombay, for example, reported that there conld hardly be a single officer of those engag-

ed in carrying out the Income Tax Act who must not have felt from the very first and been confirmed in his views as the work proceeded, that the Act as passed, however fitted it might be for Europeans, was wholly unsuited to the people of this country. He stated that it was impossible to make the details of the Act intelligible to "a community who from their antecedents, their intellectual and moral status, and their personal feelings, utterly unable to comprehend the principles on which such a system of taxation is based." The Income Tax in England had been characterised as a "most immoral" tax, and if that was so in England, what was to be expected of a similar impost in this country with ignorance, apathy and fraud in league against it?

Mr. Laing, Mr. Wilson's successor in the office of the Finance Minister, was driven to the same conclusion. He very bluntly said in his speech on the financial statement that the Income Tax had proved a failure. He saw that the tax was evaded on a large scale and that there was a lot of discontent against it amongst people subjected to it. In a minute of his regarding a proposal to amend the Act, he stated it as a conclusion he was constrained to draw from the returns submitted to Government, that he had no faith in the increased productiveness of the tax in future years. He quite frankly admitted that it was a great and just principle that "the capital and trade of India, as well as her land, shall contribute, in a fair proportion, owards the support of the State" and that it was a principle from which no Government could recede. He like-

wise made it plain that as regards incomes, which are fixed and certain, and can be ascertained without prying into people's private affairs, there is no fairer mode of applying it than by a percentage on the amount of income. The remedy he, therefore, proposed was to commute the Income Tax under Schedules 1 and 2 on trades and land amounting to £ 1,000,000 or £ 1,2000,000 a year into fixed payments by classes, under a system of Licenses—in fact reverting to Mr. Harington's bill supplemented by an Income Tax, declaring the general principle, and extending it to the salaried and other classes, not comprised in the latter's original bill.

The Government saw the force of the contention of Mr. Laing but was not prepared immediately to adopt his scheme on the ground that great as mig.t be the evils of the existing tax, the evils of a fresh resettlement of the whole question would be far greater. It proceeded to pass the License bill with the omission of the clauses imposing a separate duty on tobacco, and that article was left to the local Governments to be dealt with by them according to the peculiar circumstances of each province. The Income Tax Act was, however, amended so as to allow of the continuation of the assessments, which had been already effected and were regarded as satisfactory, for a period of twelve months so as to save people from harrassment and the issue of fresh notices. Government was also empowered to extend the provisions of the Act to all or any of the years subsequent to the year ending on 31st July, 1862, during which the Act II of 1860 should remain in force.

It will cause no little surprise that in moving for leave to bring in a bill to repeal Act XVIII of 1861 (for imposing a duty on arts, trades and dealings) Mr. Laing laid stress on the fact that in deciding to repeal the Act, Government had been influenced by no misgivings as to the soundness of the principle on which the tax was based or as to the perfect facility of collecting it without opposition. Not a whisper of opposition to the tax, he went on to say, had reached Government who believed that the tax was a "perfectly legitimate way of raising revenue whenever additional revenue is indispensably required." The Viceroy, Lord Canning, also stated that "in no quarter had there been any indication of soreness or irritation at the imposition of this tax." But the fact was not gainsaid that the license tax would have to be collected from four or five millions of the humbler classes of artizans, mechanics and petty traders in order to produce about half a million of revenue, and that, therefore, it was not worth the while of the Government to cause to so many poor and ignorant people trouble and annoyance with occasional injustice inseparable from the collection of such a tax.

It is a very curious circumstance that the disputation which raged round the question of the taxes on incomes in India ran on lines almost similar to those followed by the great controversy which convulsed England during more than the first half of the last century, regarding the Income Tax. * The Indian

* Read Seligman's interesting account of the struggle round the English Income Tax in his work "The Income Tax."

legislature did not, of course, possess any power over fiscal matters ; nor had education of the public made any progress which could have enabled them to safeguard their interests and agitate for or against the measures of Government. Such views as were expressed, however, in England and in this country, appear like echoes of the sentiments ventilated and arguments adduced in the press and the Parliament and in numerous pamphlets in England on the question of the income tax. In the House of Commons itself the Indian income tax was both attacked as an odious impost and defended as a necessary contribution justly levied upon classes which had no legitimate grievance against that State demand. In his speech in the House of Commons on 13th August, 1860, for instance, Mr. D. Seymour said that "Mr. Wilson's taxation would inaugurate a new era for India of the greatest possible importance. It was somewhat similar to that which commenced with our glorious Revolution, at which time the bulk of our taxation was raised by the land tax. Since then personalty had enormously increased and the taxes had been gradually placed on that branch of wealth. The same principle was being introduced in India, by Mr. Wilson and he (Mr. Seymour) believed that the people of that Empire were sufficiently enlightened to see that it would be to their lasting advantage and interest." Another member, Colonel Sykes, on the other hand, remarked in July 1861 that the "ill-judged income tax had yielded 50 per cent. less than its estimated produce, and its operation reaching down to persons having only £ 20 a year, and living from hand to

mouth, it had led to frightful oppression in numerous instances."

The great merit of Mr. Wilson's scheme of the taxation of incomes lay in the fact that it led the way in fiscal reform by showing the possibility of tapping new sources of State revenue according to modern approved principles which had not yet been fully or generally accepted even in such an advanced country as England. It was a temporary measure adopted to serve a definite purpose, as in England, and though the experiment was more or less a failure, at the time, it was capable of renewal under more favourable circumstances. In fact, the income tax had to be reimposed a few years later, and it has steadily undergone various improvements and has become an indispensable part of the Indian financial system and a very productive one too. In view of the fact that the mercantile and other classes, European and Indian, who wished to evade their fiscal responsibilities, did not want their profits to be subjected to direct taxation and long continued to resist the attempts of Government to touch them, one can not doubt the necessity, the justice and the reasonableness of a tax on incomes in this country, and no sympathy need be wasted on the clamours and the wails of those wealthy people.

From what we have said above regarding the traditional indigenous system of taxation described by writers on law and administration in India, and prevalent in the country for two thousand years, it will have become clear that direct taxation and the taxation of profits of traders and of the product of the

labour of artisans, have been quite common with the people. There were direct as well as indirect taxes and taxes on property, produce and income. Agriculture being the predominant industry of the country, it was but natural that the land tax should be the most productive and the universal source of the revenue of the rulers; but it was supplemented by taxes on other forms of wealth. The evolution of taxation has been, all the world over, from property to produce and from produce to income as the best indication and measure of ability to contribute to the expenses of government. Incomes have likewise been graduated and differentiated for purposes of the income tax, and various exemptions and allowances have been conceded in recent times. The revenue fróm land has been the principal direct tax on produce in this country though it is the custom with many to call it a rent and comfort themselves and others that India is the most lightly taxed country in the world. It operates also as a tax on agricultural incomes, though looked at in this light, it is comparatively a heavy impost. The non-agricultural classes ungrudgingly paid the taxes levied on them, as landlords, traders and artisans, all alike, believed it to be their duty to contribute to the treasury of the government.

Taxation systems have, in all countries, developed by the side of and in consonance with the economic, political and social evolution of their peoples.. Though they have had many common features, the systems were bound to vary according to the peculiar conditions of each country. The general property tax had, in

England, in the eighteenth century, shrunk to negligible proportions before the customs and the excises. Personalty which it had been intended to tax along with real property, escaped practically altogether and the burden of the tax fell almost exclusively on land. A similar state of things existed in India at the time Mr. Wilson attempted to tackle the problem of fiscal reform. He did indeed take every care to see that harrassment of the public was minimised. Exemptions and allowances were granted with this view and the co-operation of panchayats was sought in making assessments. Each person liable to the tax was asked to furnish an unsworn statement of his approximate income, and appeals were allowed to the Collector. But the minimum allowed to go untaxed was put too low at Rs. 200, and the general rate of 4 per cent. was rather too high. The novelty, the complexity and the irritating and demoralizing character of the tax, were, however, the most serious objections to the impost in India whose people were hardly reconciled to foreign rule and had only recently gone through the excitement and the dangers of the Mutiny.

These last considerations did not receive at the hands of Mr. Wilson and the Government the careful attention they merited. Sir Bartle Frere who was by no means prejudiced against the income tax and whose opinion was not that of an ignorant or an interested person, was constrained to make the following observations regarding the working of that tax :– "But though I can not consider it as a financial failure, there can not be question that whatever its financial results, its effect in a great majority of cases

is far more demoralizing than it is in England, where as we well know, this inevitable tendency of all direct taxation of incomes forms one of the prominent objections to this mighty engine of finance. Moreover the political tendency, if I may so call it, of the income tax, is not what can be desired. The demand on a great multitude of people ill-acquainted with the objects and usages of our government, in requiring them to tax themselves, by stating the amount of income on which they are to be assessed, was more calculated to puzzle and irritate them than to reconcile them to a new impost." For these and other reasons he would have liked to see substituted for the machinery of the income tax the more simple and intelligible expedient of a license tax "which without previous direct inquiry tells a man what he is to pay and leaves him, if he can, to prove that he ought to be placed in the lower class and be assessed at a lower rate." But having advanced very far in the way of a modern income tax, this sort of overhauling of the whole system set up was thought to be undesirable as well as impracticable, and there the matter rested for the time. Steps were only taken to introduce what improvements it was possible to devise, into the machinery of the income tax as it had been created.

CHAPTER VI

EQUILIBRIUM ATTAINED.

The high hopes which Mr. Wilson himself sincerely cherished and with which he attempted to inspire other people, about the success of the great scheme of financial reform he had initiated, were not destined to be realized. He was himself removed by the cruel hand of death before he could secure sufficient evidence to guage the effects of his schemes of reform, and his responsibility was shouldered by Mr. Samuel Laing. The prospective deficit for 1860–61, amounting to £ 6½ million, Mr. Wilson had proposed to meet partly by new taxes, partly by reductions and partly by a draft on the cash balances. The actual deficit was £ 6,678,000 and was covered by resorting to the last of the three expedients, the balances being reduced from £ 19,600,000 on 30th April, 1860, to £ 14,500,00 on 30th April, 1861. Of the two new taxes proposed by Mr. Wilson, the Income Tax alone had been passed by this time, but it was passed late in the year so that the exchequer could realize only £ 803,550 from it. In Mr. Laing's opinion, the yield of the two taxes, put down at £ 2½ million, the Income Tax contributing £ 1½ million and the Licence Tax £ 1 million, had been overestimated and his own calculation was that they should give £ 1,400,000 and £ 600,000 respectively or £ 2 million together. To add to this, instead of a reduction of expenditure amounting to £ 1,700,000 as estimated by Mr. Wilson, there was a slight positive increase. The result of it all was

that the country was confronted with the prospect of an excess of expenditure over revenue to the tune of £ 5½ million, of an alarming reduction in the cash balances and of the urgent necessity of borrowing for capital outlay on railways.

A gloomy prospect indeed! And it was Mr. Laing's task to put a new complexion upon the situation and to estabilish an equilibrium between revenue and expenditure. The chief means on which he relied for success in this undertaking, was reduction of expenditure on the Army.* It was to amount to £ 3,600,000. In April 1857, let us remind the reader, the Army consisted of 45,522 European and 2,66,852 Native troops costing about £ 12 million in India and £ 1½ million in England. In 1858–59, owing to the Mutiny, the cost increased by about £ 11 million. Next year the expenditure was reduced to £ 20½ million and in 1860–61 to £ 18 million. The latter figure exceeded the pre-Mutiny expenditure by £ 5¼ million. To wipe out the excess, Government proceeded, with the advice of the Military Finance Commission, to make drastic reductions in the strength of the Army, and the number of Native troops was brought down from 2,84,000 in 1859 to about 1,40,000 men, and the military police to the extent of 60,000 men

* Mr. Laing had a distinguished career as a member of Parliament and as a Treasury and Board of Trade official in England. Before leaving for India he is reported to have asked Lord Palmerston if peace could be expected to continue so as to make a reduction of the Army possible in India. His Lordship is stated to have replied:—"It is difficult to rely on the man at the Tuilleries. But go forward with reduction and retrenchment".

was likewise disbanded. No material change, was proposed in the case of the European force. The policy of Army reduction was expected to result in economy in expenditure of about £ 3½ million. The Home Charges on the military had been very slightly reduced from £ 2¾ million in 1860–61 to £ 2½ million in 1861–62.

The growing military expenditure of India and the unfair financial burden thrown upon the shoulders of this country on that account, have been a subject of a bitter and well-founded complaint on the part of Indian leaders for years together. Mr. Laing recognised that the officers and men belonging to Indian regiments in Depot in England are as much a reserve for England as for India, and he contended that in as much as in an emergency, these troops would be available for the defence of England it was not fair that India should be made to pay the whole cost of the Reserve Establishments in that country. 'The day is past' he said, 'when England can consider India as a sort of a milch cow on whom to draw for a little here and a little there, in order to round an English budget, or ease an English estimate'. He pleaded for strict and impartial justice in all money matters between England and India. Curiously enough, this appeal to strict justice was apparently not for the sake of justice or solely for India's benefit but largely for the safety of the £ 100 million of British investments in this country and for the prospect of India providing England larger supplies of raw materials and the best market in the world for British manufactures! India spent

£ 1 million a year on a Navy that assured no effective protection, and Mr. Laing was anxious to reduce the amount on the clear understanding that in the event of a naval war India must trust to Britannia to rule the seas.

The Finance Member stated that he was not unmindful of the urgency and possibility of economy in civil expenditure and instanced police reform as in a case in point. He observed that the system of budget estimates which had been introduced, had already afforded him means of checking in detail expenditure on several minor departments and he felt assured that it would prove more and more an efficient instrument for checking extravagance and enforcing economy. They were times of the civil struggle of the American states over the question of slave labour and it was a question for India whether she would be able it make up the deficiency of cotton from America and assume a predominant role in cotton production and export. Mr. Laing believed that private enterprise alone could decide this issue but Government had certain duties to perform and that it was not neglecting them. It could press forward the construction of roads, dispense impartial justice under contracts and encourage independent English enterprise by every means consistent with justice and the equal rights of Indians. Besides the development of communications, the construction of canals would be promoted because as Colonel Cotton had remarked, 'water is gold in India': nay, it is more than gold: it is life.

The net result of all the dispositions proposed by the Finance Member, would be a total expenditure of £ 41½ millions in 1861–62 as compared with £ 45, 154 449 in 1860–61, a reduction of £ 3½ million. With regard to revenue there were two or three important points in Mr. Laing's speech on the financial statement. In the first place, he was an out and out free trader and was anxious to remove all duties which had a protective tendency, or to impose a countervailing excise corresponding to the customs duty. Had it not been for the considerable loss of revenue that would be involved, he would have reduced at once from 10 to 5 per cent.the duty on piece goods and other articles and had to content himself with cutting down the import duty on yarn. People were building mills and importing machinery on the strength of the high duty, and he would not like them to compete with Manchester on unequal terms, with the support of a duty which, according to him, could not be maintained for a couple of years. Secondly, it was proposed to increase the duty on salt at different rates in the different provinces, and it was maintained that the increase of duty had not checked and would not check consumption. Thirdly, Mr. Laing affirmed that the Income Tax had proved an utter failure. The principle underlying it was sound but in practice the tax was unworkable owing to the difficulty of reaching small and uncertain incomes; and it had a demoralizing effect because it held out a premium to fraud. The License Tax too which he held in reserve, by itself, would prove unproductive; and to raise even £ 600,000 by it, the tax-gatherer must be sent to 4,000,000 doors and it must affect 20,000,000

of the population. In Mr. Laing's opinion the License Tax must be combined with a suitably amended Income Tax so that the united measure would not be felt as a sort of oppression and a burden. He further expressed the view that the difference between the guarranteed interest on railways, which amounted to £ 1,800,000, and the net receipts from opened railways, viz. £550,000, was chargeable to capital but he was prepared to provide for it as current expenditure. People thus continued to be taxed for the railways which are now a dearly purchased asset of the nation.

In spite of the saving effected by his economy and increased revenue he was able to secure, Mr. Laing had still a small deficit to face. The revenue for 1861–62 was expected to be £ 41·2 million as compared with £ 39·2 million for the preceding year. The expenditure without railway interest would amount to 40·2 million and with it to £ 41·5 million. In the latter case, there was a deficit of £ ¼ million. To meet the deficit, the Government of India would have to deny to the local Governments the additional half a million it proposed to allow them for useful public works. But in view of the great importance of irrigation and improved communications, instead of curtailing the Imperial allotment, the Government of India would say to Local Governments, "take what we are able to give you and for the residue take certain powers of local taxation and raise it yourself." Here is the germ of decentralization of Indian finance, a problem which has exercised the wits of the Government of India for over two generations and about which improve-

ments have been persistently pressed by Indian leaders. The problem could be finally solved only under the post-war constitutional reforms. And even the scheme of the separation of Provincial and Central finance adopted last year, has failed to give satisfaction and will have soon to be modified. Provincial Governments have chafed under the severe restraints imposed on them by the Supreme Government, whose domination repressed the emergence of a sense of responsibility in the Provinces and discouraged every desire on their part to economise and to improve. Mr. Laing clearly perceived the serious drawback of the centralized system of finance and was anxious to remedy it. He observed:—"It has long been a standing complaint with other Presidencies and Provinces, that they were deprived of their fair share of self-government, and kept in a state of galling and humiliating dependence on the bureaux of Calcutta. Well, Sir, the power of the purse is the ultimate power, and so long as local Governments are absolutely subservient to Calcutta in financial matters, it is evident that they can have no real independence. But if, without sacrificing in any way the unity of the Empire and Imperial control in Imperial matters, we give them local Budgets their position is altered. We propose to give them not only powers of local taxation but possibly to credit them with a liberal share of reductions of expenditure which they may be able to make on the Estimates of the General Budget."

The idea which was developed and put in operation ten years later, was that each Province was to have

a local budget and the local Government was to be endowed with the power of levying taxation in a way that would not interfere with Imperial taxation so that each Government would have a direct interest in economy and would also come to occupy a position of dignity and a small measure of independence. The scheme was also calculated to foster the growth of municipal institutions and of the spirit of local self-help and self-guidance which is at the bottom of a nation's greatness. It is worthy of note here that these high principles about India's political and economic development have been propounded by Government's spokesmen time after time for years together and have formed the subject of the perorations of budget and other speeches, but that progress towards the goal has been irritatingly and unaccountably slow. Practice in this regard has been little in accord with professions. Mr. Laing remarked :— "India is not altogether devoid of that spirit of self-government which characterises the Anglo-Saxon. In her village communities and her panchayats, we find traces which may remind us that Hindu, as well as Englishman or Teuton, are descended from a common stock of Aryan ancestors." He saw the vision * of an Indian nation train-

* "You may say that this is a vision, and this much is certain, Sir, that neither you nor I will live to see it fully realised; but I reply that it is something for a Government to have a policy, and a high and distinct, though distant aim, and I think I may safely say that this is an aim in which every enlightened Hindu and Mussulman, as well as every enlightened Englishman, may cordially unite with us and join us in praying in the words of the inspired Psalmist, "that our works may be so done in truth and equity, as to stand fast for ever and ever".—Budget Speech.

ed to self-Government by western influences set in motion by British rule by foreign trade, by English education and by Britich enterprise. The mission has taken inordinately long to materialize, and full self-government for the Indian nation is still a goal to be reached in the future.

What with reduction of expenditure, especially on the Army, with the additional taxes imposed and with the normal increase in revenue, deficits in the Indian budget became, for the time being, a thing of the past. Financial estimates had so often been falsified and hopes of surpluses disappointed that a decided improvement which took place in the situation in 1861-62 was received in England with incredulity and astonishment. But it was an accomplished fact. * The system of accounts relating to India was not yet being worked to the entire satisfaction of the officials concerned but every test to which the financial position was subjected, revealed the buoyancy of revenue and the success of the policy of restricting expenditure within the limits imposed upon it. Deducting from the total expenditure, charges which were not open to revision such as interest on debt, we find that the balance of aggregate military, naval and civil expenditure amounted to

* "The deficit was £ 5,862,718. We have met £ 3,589,750 of it by reductions, £ 2,008,864 by improved revenue and £ 500,00 by transfer to local budgets. Therefore, I have a clear surplus of £ 239,896 of income over expenditure including in my expenditure, £ 1,300,000 on account of Railway interest, which is properly chargeable to capital."—Mr. Samuel Laing's budget speech, April 27, 1861.

29·3 million in 1860-61 and to £ 24·2 million in 1861-62, thus showing an improvement of £ 5 million in a single year. This saving was largely due to the reduction of military expenditure which was carried out as follows;—

Military Expenditure

1859–60	...	...	20·9	millions.
1860–61	...	...	15·8	"
1861–62	...	...	12·8	"

It had been proposed to transfer half a million to local budgets for Public Works and to ask local Governments to raise the amount by provincial taxation. But this plan wás not carried out for the reason that under the Councils Act of 1862, the Provinces were given local Legislative Councils, and it was felt that it would have been improper to anticipate their action in a matter peculiarly their own. In his financial statement for 1862–63, Mr. Laing repeated his conviction that material and moral progress as well as efficient administration required that local objects must be financed by local taxation. He said:—"It is of the first importance to break through the habit of keeping every thing in dependence on Calcutta, and to teach people not to look to the Government for things which they can do far better themselves." It was in entire accord with this principle not to impose local taxation by an Imperial fiat but to leave each Government with the aid of its own Legislative Council to work out the problem in its own way, subject only to an Imperial control. Accord-

ingly, the half million which was to have been raised by local taxation was provided by the Imperial Government and a small special grant was made for 'cotton roads,' that is roads which were calculated to facilitate the transport and the export of raw cotton. Notwithstanding an increased outlay on opium production and Public Works, of £ 1½ million, and the remission of the License Tax which had been approved by the legislature but which, owing to administrative and other difficulties, was not actually levied, there was a substantial surplus of about three quarters of a million at the close of 1861–62, chiefly owing to an increase in revenue of £ 1½ million over the budget estimate.

That the natural growth of revenue accompanied by a reduction of military expenditure, enabled the Finance Member to establish equilibrium between the two sides of his account and even to provide a surplus, was clear from the financial position which was reached in 1862–63. Mr. Laing found himself in the happry position of having at his disposal a surplus of £ 1½ million to distribute among useful objects and of having to consider whether a part of the amount should be utilized for the remission of taxation. The reduction of the Native Armed Force continued apace and it was now brought down to 125,000, and the European Army also was reduced to the established strength. We cannot but refer in passing to the practise of the British Chancellor of the Exchequer unnecessarily to saddle India with military burdens which should have been borne by Eng-

land and to the remonstrance which, though mild under the circumstances, the Indian Finance Member had to pronounce against this selfishness and injustice. Mr. Laing was prepared to let by gones be by gones and to overlook the unjustifiable delay which had taken place in reducing the strength of European troops intended for India and held in England, but felt constrained to record an emphatic protect against the practice 'so pleasing to an English Chancellor of the Exchequer and so displeasing to an Indian one of keeping 10,000 or 15,000 additional soldiers in England at the charge of India' and that too at a time when Indian finances were in a critical position.

Besides military expenditure there are a number of important features of Indian finance which demand the careful attention of the student. There is the outlay on railways and the guaranteed interest paid on railway capital out of revenue year after year. Then there is the expenditure on other public works and on ameliorative services, education, medical relief and so forth. On the revenue side, opium, the tax on incomes and import duties occupied an important place. The existence of the salt tax, especially the high rate of the duty, was a weak point in the financial system. A well-devised tax on incomes was bound to come in the future though the existing impost was going to be laid on the shelf. The Indian Finance Member would not and could not think of a protective tariff and India had to adopt free trade as its fiscal policy. The question of financial decentralization had likewise come to the fore and called for solution and

those relating to a "permanent settlement" and of a gold currency were being seriously debated. As history of Indian finance is reviewed from stage to stage we must keep our eyes fixed upon the above points as they involve principles of great significance and affect the economic development of the country. Out of a surplus of £ 1·4 million available to him for disposal for 1862–63, Mr. Laing proposed to give £ 146,453 more than in the preceding year to Education, Scince and Art so as to bring the grant for these objects up to £ 500,000. He felt satisfied that this grant was quite liberal in view of the fact that it was more than what England spent on education ten years before and was, in 1862, in a larger proportion to our total expenditure than the English grant was at the time to that of England. He frankly admitted, at the same time, that the grant was small when compared with the magnitude of the field which had to be reclaimed from ignorance. The Imperial grant for public works was likewise liberal and absorbed £ 380,000 out of the surplus, leaving £ 903,880 for disposal. Should it be used for remission of taxation? Could the prospects of finance stand it?

The opium revenue of India has been the subject of a lively discussion for generations, both in its moral and financial aspects, and its instability and uncertainty have exercised the minds of Finance Members. The people of every country use some stimulants and the State derives considerable revenue from a tax on their manufacture or sale. Europe consumes alcohol, China consumes opium. The Chinese demanded In-

dian opium as an article of superier quality and were prepared to pay for it. Under these circumstances, there was nothing wrong in the Indian Government deriving revenue from an article which commanded a large and certain sale in China. Viewing the matter carefully and dispassionately, Mr. Laing felt convinced that "the existing revenue is not more precarious than any other revenue depending on a widely diffused artificial taste among a vast population." The security of the opium revenue being thus established, the next question to answer was if with the other sources of Government's income, the general financial system was so rescileant and so reliable that the country could tide with ease over any temporary disturbance that might arise at any time. The Finance Member entertained no misgivings on this score and took an optimistic view of the future of Indian finance. The total revenue of India in 1862–63 was £43·5 millions; ten years previously it was £29·2 million. This meant an increase of £14½ million in ten years. Leaving out of account the increase due to opium, new taxes and acquisition of territory, amounting to £7½ millions, we have the balance of £7 million in ten years or £700,000 a year, which was due to the elasticity of existing revenue such as land, abkari and salt. The material development which was going on in the country was calculated to improve the finances still further, and in view of the large expenditure annually incurred on public works, which was a kind of a sinking fund admirably invested, it would not have been a right policy to budget for an additional cash surplus against remote contingencies. If unfortunately some unfore-

seen crisis caused increased expenditure, there were sources of revenue in reserve that could be drawn upon. In the first place, there was a cash balance of £ 17 million while only £ 7 million would suffice to carry on the ordinary business of Government. If driven to additional taxation, Government could raise the required funds by means of a tax on incomes or an enhanced duty on salt or imports, and the optional expenditure on public works of £ 2 million a year could be temporarily suspended. *

A strong case having been made out in favour of remission of taxation, it followed as a matter of course that the taxes to be reduced or abandoned altogether must be those which had been proposed to meet the financial crisis of a few years ago. And they were the income-tax, the license-tax and the enhanced custome duties on manufactured goods. Of these, the license-tax, which would have affected 50 lakhs of Indian traders, artisans and mechanics, and with their families a population of 2 crores, was abandoned after it had been imposed by law. As to the remaining two taxes, the income-tax produced £ 1,800,000 a year and could not be sacrificed and the only alternative that remained was to reduce from 10 to 5 per cent. the duty on imported piece goods at the cost of about half a million. There were some who held that the

* Mr. Laing stated in his budget speech that he had established two propositions :— (1) that 'we have a surplus for the ensuing year, viz. 1862–63, of £ 903,814 after allowing for additional grants for Public Works and Education and (2) that there is nothing in the general circumstances of Indian finance which should make us hesitate to use this surplus for purposes of remission.''

higher rate of customs duty should be retained as a part of the regular financial system of India, and among them was the Lieutenant Governor of Bengal. Mr. Laing opposed four arguments against that proposal. (1) India was a part of the British Empire and England did not exact any tribute from her greatest dependency. Apart from moral and political considerations, the extension of commerce was 'the most direct and palpable advantage derived by England from the possession of India.' And no revenue ought to be collected in India which interfered injuriously with the trade between the two countries and which pressed unduly upon English manufacturing interests. (2) The proposal militated against the principle of free trade, and though anxious to see manufactures grow up in India, Government did not want to confer on Indian manufacturers 'the fatal boon of a temporary and precarious protection,' (3) The poor population of India required cheap clothing while a ten per cent. import duty on English cotton cloth would raise its price to the consumer, and (4) The export trade of India on which the prosperity of the country so much depended, depended itself on the import trade, and anything which interfered with the exports, must affect injuriously the economic condition of the people. For these reasons Government decided to reduce the import duties on piece goods and yarns to the old rates of 5 and 3½ per cent. respectively. Duties upon beer and tobacco were likewise reduced.

It may be recollected that the License Tax Act had not been put into operation, and it must be noted

that by special temporary legislation, the assessment under the Income Tax were continued for one year. The Income Tax had been imposed as a temporary measure for a period of five years, and Government was determined to keep faith with the people by not prolonging it. The financial prospects were favourable to the success of this policy. It was, therefore, decided to renew for the next three years the temporary Act of 1861 dispensing with further returns and inquiries about incomes, and to take the first year's assessment for the remainder of the quinquennial period. What was more important was the relief it was proposed to give to the poorer classes who had to pay a vexatious tax upon their small incomes. This relief was required for administrative as well as financial and economic reasons as may be seen from the interesting fact that the number of persons who paid at the lower rate of 2 per cent. on incomes between 200 and 500 rupees a year, was nearly two-thirds of all those who paid the tax while the amount they paid was not above one-fifth of the total proceeds of the tax. * These people were to be altogether exempted from the payment of the income tax and Government rejected the alternative which had been suggested viz. to substitute for a total repeal of the 2 per cent. tax a partial relief to all income tax payers by a reduction from 4 to 3 per cent. in the rate of the payment. The Finance Member very properly deprecated the desire to escape

* "In other words, between 500,000 and 6,00,000 persons are taxed to produce a gross revenue of not more than £ 350,000"—Mr. Laing.

taxation shown by the educated and the wealthy classes and the dog in the manger attitude adopted by them. Mr. Laing was very anxious to convert the income tax whose drawbacks had become palpable to all, into a licence tax on the model of Mr. Harington's bill and also to hand it over to local Governments to manage it according to their circumstances and for their own local requirements. He welcomed a proposal made by the Government of Bombay in this behalf and to the above effect and discovered a consuming desire to relax control over provincial finance with a view to confer on the local governments power and responsibilities of managing their own affairs. The Finance Member, could not, however, do much in that direction at the time. It is significant that he had to read a homily to educated gentlemen like the great majority of the official and non-official Europeans in India against the "ignorant impatience of taxtion" exhibited by them in pressing Government to relieve them of the burden of the income tax, in the face of the assurance that the tax would be allowed to drop as promised on the expiry of the period of five years originally fixed.

A serious difference of opinion arose between the Government of India and the Secretary of State for India regarding the manner in which the accounts for the year 1860–61 had been made up and the estimates for the next two years were presented. Sir Charles Wood animadverted rather warmly upon the conduct of the Indian Government and of Mr. Laing in particular, in his capacity of Finance Member, in overriding

the express instructions conveyed to them and the practice established by long usage, regarding the debiting of certain charges and the crediting of specific items of revenue to India's account. He stated:—"If, for example, as is undoubtedly the case in the statements for the last year or two, items are omitted from the charge which were invariably included before, and items set down as revenue which were never so placed previously; and if these two proceedings are contemporaneous, it is obvious that a statement so framed is productive of a result utterly dissimilar from that shown in former years, without any change of circumstances, and gives a flourishing view of finance as compared with previous accounts, which is not founded on the real facts of the case. Without going into the details of the controversy, we may state that Mr. Laing's surplus for 1861-62 estimated at £ 239,896 was converted, by the corrected calculations of the Secretary of State, into a deficit of £ 595,513 and the actual result was a deficit of only £ 150,628, which Sir Charles Trevelyan hoped was "the last of the long series of Indian deficits." The small estimated surplus of the next year was similarly converted into a deficit but it turned out to be a substantial surplus of about a million.*

Sir Charles described the financial year 1862-63 as one opening a "new era." The days of deficits had passed. Indian revenues displayed a buoyancy which had never been suspected. Equilibrium between revenue and expenditure had been attained and a surplus had been secured not-with-standing

remissions of taxation. Those who had maintained that Mr. Wilson's scheme of additional taxation was uncalled for and that with reasonable efforts at economy, natural increase of revenue would suffice for balancing the ordinary revenue and expenditure, were completely vindicated. Even Sir C. Wood recalled in the House of Commons in his speech on the financial statement for 1863–64 what he had said in 1859 viz. that "by judicious economy we might in two or three years bring about an equilibrium between revenue and expenditure." He attributed the increase which had taken place in the revenue to the general improvement and growing prosperity of the people. Due credit was given to the Government of India for the reduction of expenditure which had been steadily effected by it. Financial equilibrium had been reached, however, in spite of the generous expenditure which was being incurred for public works and other means of material improvement. Sir C. E. Trevelyan told the Legislative Council that the Indian Government was able, owing to the satisfactory state of the finances, to carry out the instructions of the Secretary of State to spend a large amount of money on the improvement of roads subsidiary to the railways, without drawing upon the cash balances though he had asked them to use those funds for the purpose. Government could thus accomplish the object without departing from the good old rule of English finance that the whole of the expenditnre of the year should be provided for out of the ways and means raised within the year. The exhibition of a surplus, he said in the words of Lord Elgin, "tangible, palpable and

incontrovertible" at the then turning point of Indian finance was a matter of great public importance and he approved and followed the fiscal maxim that "our available capital is to be employed in extinguishing permanent charges upon revenue, and every demand of the year is to be met, as heretofore, from the surplus over revenue."

The position with regard to the revenue and expenditure of Government was greatly improved in the course of only a few years after Mr. Wilson's famous budget, and the following statement will show how, by the year 1864–65, annual surpluses had become the order of the day :—

	Revenues and Receipts £	Expenditure £
1861–62 (Actuals)	43,829,472	43,880,100
1862–63 (Actuals)	45,143,752	43,316,407
1863–64 (Budget)	44,971,200	44,490,425
1863–64 (Rgular Estimate)	44,753,500	44,721,971
1864–65 (Budget)	46,163,870	45,340,582

The steady increase of revenue is exhibited in the following statement :—

1858–59	...	...	£ 36,060,788
1859–60	...	...	£ 39,705,822
1860–61	...	...	£ 42,903,234
1861–62	...	...	£ 43,529,472
1862–63	...	...	£ 45,143,752

CHAPTER VII

THEN AND NOW.

The story related in the preceding Chapters, of the rehabilitation and reform of Indian finance after the Mutiny, is calcutated to raise in the reader's mind the questions, "Has it any bearing on the present financial situation in India?" "Has it any lessons to teach us?" It would be idle to pretend that Indian finances are in a satisfactory state or that they do not require any sérious consideration and may be safely left to adjust themselves to the conditions as they develop. Vast changes of a political, economic and social nature have taken place in the country since the days of Mr. Wilson and Sir C. Trevelyan, and Indian problems have assumed dimensions that could not have been dreamt of sixty years ago. India's foreign and internal trade, her currency and exchange, her banking and public debt, her railways and industries, her labour and prices, her financial organization, central and provincial, and her machinery of popular financial control, have all changed in size, quantity and complexity. The Mutiny, though an event of extremely dangerous possibilities for India at the time, was, in

its effects, a mild sensation when compared to the great world war through which we have just passed. British rule in India was certainly challenged by the Mutiny, and the connection of this country with England was threatened by it. But it was, after all, only a domestic trouble whose heavy cost had indeed to be made good and whose recurrence was to be rendered impossible. The recent war, on the other hand, has convulsed the whole world and has reacted on the political, economic and the financial condition of India on an unprecedented scale.

The Indian Finance Member of to-day has certainly not to do the work of a pioneer which Mr. James Wilson had to perform. He is not called upon to sail on an uncharted ocean. The work which his predecessors have done and the experience which they have accumulated, as also the progress the country has achieved, are calculated to guide and assist him. But the immensity and the complexity of the task that confronts him, are none the less factors which render the financial position at least as difficult as it appeared to Mr. Wilson. If the material resources of India have grown and with them the strength and the elasticity of her finances, the country's needs have expanded in a larger proportion, and the economic dislocation, the aftermath of the world war, which has paralized the industries, trade, exchanges and finances of almost all countries, has had a gravely depressing effect upon the situation in India. Even a superficial view of some of the financial and other statistics of to-day and of sixty years ago, will yield a striking contrast:—

	1858–59	1920–21
Revenue	33,80,00,000	194,54,26,000 (Budget)
Expenditure	48,50,70,000	205,74,15,000
Deficit	14,70,10,000	12,93,26,000
Income Tax (Budget,1861-62)	19,48,094 (including arrears)	21,06,80,000
Imports (Merchandise)	21,36,64,4793	335,51,00,000
Imports (Treasure)	12,70,11,249	— 2,56,00,000 (Net)
Exports (Merchandise)	26,98,91,003	256,36,00,000
Exports (Treasure)	64,10,062	...
Railway Revenue (1861-62)	- 1,300,000	4,53,87,000 Net Profit (Revised Esti.)
Military Expenditure	24,75,00,000	74,36,79,000 Revised Estimate
Interest on Debt (1861–62)	3,56,71,000	11,65,11,000 Exclusive of railway debt.
Paper Currency Issue (1863)	5,11,00,000	174,52,45,960

The above figures will, at best, give an inadequate idea of the relative financial and economic position of the country in those different years. Banking and paper currency were in their infancy in the time of Wilson and Laing, and they have made gigantic strides since then. The currency problem was mere child's play in those days, and the exchange, though it was a disturbing element even at that time, did not give anything like a hundredth part of the trouble it is causing to-day. Railway

mileage has grown enormously and the financing and management of those public works are raising questions the difficulty of which is many times greater. Military expenditure is six times greater than it was before the Mutiny and three times larger than in the worst days of that calamity. Sir C. Trevelyan complained of the extraordinarily large increase which had taken place in the prices of food grains in 1863 and the rise in wages which had occurred. Prices and wages are to day 100 to 300 per cent. higher than they were sixty years ago. The Commissioner of Police in Bombay reported to his Government in January, 1864, a year of unusually high prices and wages, that "the common labourer of Bombay, and a Callassie of ordinary ability in the Harbour in whom intelligence is not generally deemed to be a desideratum, is able, I beg to state, to earn daily, the former from 6 to 7 annas a day or more than Rs. 11 per mensem, and the latter 8 annas a day, or Rs. 15 per mensem". A comparison of these figures with those representing the corresponding wages of to-day will be instructive. The public debt of India, permanent and floating, which Mr. Wilson had to tackle was a mere bagatelle before the burden that is embarrassing the Finance Member at the present moment.

Mr. Wilson had regarded it as one of his principal duties to put an end to the chronic deficit which threatened to persist, and to create a permanent surplus. The deficits during the recent War were on a larger scale and were equally pertinacious. The Army expenditure was at a very high level and increased cost of living necessitated larger salaries and

enhanced charges of the general administration. This was more or less a permanent increase in the cost of establishments, and the salaries of the higher posts under the Government were put on an enhanced scale. The low-paid servants of the State legitimately claimed a revision of their pays and they had in most cases to be met though tardily and insufficiently. A comparison of the expenditure on the heads "Direct demands on the revenue" and "salaries and expenses of civil departments" in the current year with what it was before the War, will show what an enormous increase has taken place in this respect alone. The two heads taken together were responsible for £ 27 million of expenditure in 1913-14; in the revised estimates for 1920-21, that expenditure is put down at Rs. 67 crores and is still on the increase. Making due allowance for the altered value of the rupee, we find that the increase is one of about 60 per cent. The increase in military expenditure is also a huge one, the amount for 1921-22 being Rs. 66·3 crores as against £ 21·2 million in 1913-14.

It seems impossible that the civil and military expenditure should be brought down to the pre-war figure though it was possible to reduce at least the expenditure on the Army during a few years after the suppression of the Mutiny. A level of charges much higher than the people were accustomed to before the War, must be assumed as a hard fact of Indian finance. This does not mean that there is no room for retrenchment and economy. Far from it. The public is demanding —and quite rightly too—an immediate cutting down of a substantial part the cost of the administration in

every department, and resolutions have been moved and also passed in this connection in several provincial Legislative Councils and inquiries have been set on foot regarding the possibilities of retrenchment. It is believed, and we share that belief to a great extent, that the Reforms are not having a fair trial owing to the handicap of increased cost of administration with which the legislative bodies have been called upon to start on their new career. Some of the increase complained of was undoubtedly inevitable, but a large portion of it could have been and ought to have been avoided. New posts were created and higher scales of salaries were sanctioned by Government, on the eve of the Reforms, and the Councils and the public were confronted with the accomplished facts. If it be claimed that control in the matter of military expenditure and of the higher services, has been deliberately and for sufficient reasons, retained in its own hands by Government, all we can say is that it is a serious obstacle in the path of financial as well as of political reform. Unfortunately the "responsible" ministers in the Provincial Governments have failed to give a proper lead in the matter of economy and have been led away by false ideas of prestige and equality of status, into standing out for unjustifiably high salaries. The Councils must also share their part of the blame for not having done their duty to themselves and to the public whom they represent and whose interests they are elected to safeguard. *

* "These are the new circumstances to which I have referred; and it is to an Assembly so constituted that a Finance Member has for the first time to justify his stewardship. I might fairly be excused if I envied my predecessors their more spacious days. But I have no such feeling. This House may, no doubt will, criticise the wisdom of measures that have been undertaken by us in the past when the sole responsibility was ours. But for the future they will have to share that responsibility."—The Hon'ble Mr. Hailey's budget speech, March, 1921.

The question of the relative positions of provincial and central finance now stands on a footing altogether different from the one with which Mr. Laing was wrestling. Provincial autonomy in the matter of finance is an accomplished fact. Sources of provincial revenue and heads of provincial expenditure have been entirely separated from those of the Central Government, and the system of provincial contributions, intended to make up the deficit in the Central treasury resulting from the new arrangements, has been adopted. But the Provinces are not satisfied with this scheme worked out by the Meston Committee in that behalf. They want that their contributions should cease forthwith and that they should be enabled to place their finances on a satisfactory basis by the relief they would thus secure. On the one hand, the Government of India can ill afford to dispense with the contributions: its financial position can not allow it. As matters stand, it can not make the two ends meet in spite of the Provincial contributions and the high level at which taxation already stands. On the other hand, the provincial Governments find their resources too small for the ordinary charges of administration, let alone urgent reforms which are being demanded from every quarter. The Provinces do indeed enjoy the inconvenient privilege of levying taxation and borrowing, within well-defined limits. But taxation, in particular appreciably productive taxation, is difficult in the existing economic and political conditions of the Provinces.

A peculiar difficulty which Finance Members had not to face in the past, confronts the Govern-

ments of the present day. As a result of the forces let loose by the War and as a direct consequence of the constitutional reforms which followed it in India, as also to make up for the arrears of the war period, the demand for various schemes of social and economic as well as administrative improvement, has become insistent and forceful. The educated classes and even the masses have now become unusually vocal and can bring pressure to bear upon the Government. There is no longer in India an administration of a paternal or autocratic government which people could only admire or silently tolerate. The demand for funds to introduce universal compulsory primary education and to promote industrial progress and other reforms, is accompanied in the Provinces by a desire to stop liquor traffic and consequently to reduce, if not to abolish, the excise revenue which has grown in recent years at a rapid pace and which has become a sheet-anchor of provincial finance. If properly tackled, the people will certainly be willing to pay new or additional taxes, provided they are convinced that they will secure the full value of the money paid by them. To add to the difficulty of the position, there has been an economic depression in the country for more than a year past and its effects have been felt by the finances of India. It is a wide-spread phenomenon from which no country in the world has escaped, but it has occurred in India at a very awkward time. Things are expected to wear a more cheerful appearance when the present wave of depression will have passed away. At the moment, however, the task of financial management is as difficult and invidious as it can be imagined.

One important advantage which the Finance Member of the present day enjoys over his predecessors of sixty years ago, is the variety, the efficacy and the facility of the taxational weapons he has in his armoury. The people have become accustomed to taxes imposed in the exceptional times of the War, which at other times, would have looked odious and would have provoked strong resentment in the country. No contrast is more impressive in this regard than in the matter of the Income Tax. The reader need not be reminded how obnoxious, unproductive and unworkable the first Income Tax had proved. Changes in economic and other conditions and also in the ideas of the public and the Government, have made that tax not only an indispensable source of State revenue but an effective, normal method of tapping the wealth of the rich. The yield of the Income Tax was only £ 3·7 millions in 1916-17; it is estimated at Rs. 21·83 crores in the current year. This latter amount includes Rs. 6·28 crores due to Super Tax. Bombay Presidency alone contributes to-day to the taxes on incomes five times the aggregate receipts from Mr. Wilson's Income Tax. The machinery of the Tax has been recently further improved.

Another elastic and productive source of revenue which has been vigorously exploited is that of customs. The present large volume of foreign trade and the short shrift which Government has been compelled to show to the time-honoured doctrine of free trade, have combined to facilitate the task of the Finance Member in securing a substantial revenue through a higher tariff.

The rates of the tariff have been successively raised during the last few years in order to make the imports yield a larger contribution to the finances of Government. Enhanced import duties and new export duties such as those on jute, tea, rice and hides, were levied, in the first instance, during the War as extraordinary measures necessitated by the abnormal demand for funds. As usual, there was an active agitation in England against the increased duties on British piece goods on the part of Lancashire manufacturers; but the Secretary of State for India defended what was represented as a protective duty, on the ground of its being a revenue tax which was essential for the successful prosecution of the War and necessary to enable India to defray the charge of interest on the War contribution of Rs. 150 crores made to England. The increase, during the current year, of the general import duties from 7½ to 11 per cent., including the duty on piece goods, evoked similar protests from Lancashire, especially as the excise on Indian cotton manufactures was left untouched as before. This time the Secretary of State could, however, point his finger to the fiscal autonomy which Parliament had itself granted to India, and could disown all responsibility in the matter. The question of Imperial Preference too ought to be and will be mainly solved by the Indian Government and the Indian legislature in concert.

The Indian customs revenue to-day is nearly as large as the whole revenue of British India in the year of Mr. Wilson's budget. The excise duty on cotton manufactures alone is calculated to yield, in the

current year, Rs. 3 crores. An all-round increase in the tariff rates is responsible for the productiveness of this source of revenue as much as a rise in prices. A duty of 20 per cent. on articles of luxury, the enhanced duty of 12 annas per gross of boxes on matches, and other duties on imports and also on exports, will have to be reduced in the near future; but for the moment they can not be dispensed with. Another indirect tax first levied in 1917 under the stress of the War and materially enhanced during the current year, is the surcharge on railway goods traffic. The increased yield of this tax is expected to amount to 5½ crores of rupees. It is proposed to replace this surcharge by a general increase of goods rates, as the incidence of the former is uneven and therefore unfair, and the latter is called for by the necessity of adjusting the earnings to the increased working expenses of the railways. Increase in postal rates in the current year was justified not on business grounds but solely on the ground of "financial necessity." The Finance Member said:— "Postal rates as cheap as they are at present are a luxury which the country can no longer afford."

The financial aspect of State railways, is at the present moment, a matter of grave concern and keen controversy. The railways were worked at high pressure during the War, and repairs and renewals had to be postponed owing to financial stringency. That national asset has consequently deteriorated and a commission was appointed to report on the finances as well as on the system of management of State railways. The recommendations of the com-

mission have given rise to a wide divergence of opinion and to one of the liveliest of public controversies. Apart from the question of State management, the issue round which the battle is raging furiously, relates to the separation of the railway budget from the general national budget. The case for separation is based on a two-fold argument. It is urged that the Indian budget should no longer be "a gamble in railways" and should, as far as possible, be based on steady revenues and that being a business concern, the railways should be managed entirely as a business independently of fiscal considerations. So far as the provision of a fixed amount of capital for railways from year to year, without reference to the exigencies of the annual budget are concerned, the proposed separation will have the hearty approval of all. And as a matter of fact, a special committee of the Indian legislature, which was appointed to consider the question, has endorsed this recommendation, though it has confined its scheme of capital provision to five instead of ten years as proposed by the Ackworth Commission.

In the opinion of the committee of the Legislature, it would not be possible for the Government, in view of the present financial difficulties, to dispense with its railway revenue which, in the current year, is estimated at Rs. 4 crores only. We strongly object to the surrender by the State of its railway income to be merged into the capital account of the railways. If the railways in India are a business concern, they must pay a dividend to the shareholders viz. the tax-payers who have contributed for years together

to the building up of the business. For full fifty years the railways did not pay and the public was assured that when they did begin to pay, the income yielded by them would give a growing relief to the tax-payers who had been financing the losses year after year. To balance the increased working expenses the public may be charged higher rates for the use of the railways, but it can not justly be made to pay more to the Government Treasury or allow a high level of taxation to continue in order to make up for the loss of the revenue due to the utilization of the railway income for capital expenditure.

The new currency and exchange policy adopted by Government early in 1920, has landed it in a difficult position, and its finances have been very adversely affected and violently disturbed by the measures it has taken to give effect to the recommendations of the Babington Smith Committee under unfavourable and ill-suited conditions. One valuable gain Government was calculated to secure by the adoption of the 24 d rate of exchange. The remittance of Home Charges to London at a rate of exchange 50 per cent. higher than the old rate of 16 d per rupee, which prevailed for twenty years, will mean a saving of 12½ crores a year on a total amount of £ 25 million, and will practically be equivalent to so much additional taxation of the people. Owing to the reduced demand for India's staples in the outside markets during the past year and a half, with a proportionately smaller dimunition of imports, our trade balance has been persistently unfavourable

month after month, and sterling exchange has been exceptionally low. Government has not, therefore, secured the financial benefit expected from a legally fixed high exchange, and has had to put down to revenue, losses arising from a calculation, put on the basis of a rate standing midway between the old and the new rate. All the accounts of Government have now been placed on the basis of the new rate, and all remittances and other capital and revenue transactions take effect at that rate. In the current year's budget, the total loss on account of exchange has been calculated at Rs. 5·42 crores, and of this amount, Rs. 3·28 has been shown against the special head "exchange", and the balance is distributed among different commercial heads. This calculation is, however, based on the estimate that the average rate during the year will be 1 s. 8 d. But the omens are not favourable to the fulfilment of this expectation and it is apprehended that the loss owing to lowness of exchange, will be much greater than what was estimated. It may, of course, be argued that this is no real loss to the tax-payer and only means the absence of a gain expected. But the tax-payer has to make up the deficit in any event, and what is a gain to Government, is to the people, an additional burden of taxation.

This is not the only loss the new exchange policy has entailed. We have to take into account the loss on the realization of sterling securities and the revaluation of other securities and of gold held in the Paper Currency Reserve, the former of which, in

1920–21 alone, amounted to Rs. 17 crores * The remittance back to this country of disbursements made here by the Government of India on behalf of His Majesty's Government, in connection with the War, will, in the last and the current years, be responsible for a loss of about 11 crores. There are similar losses on capital transactions in relation to railways and irrigation works. Government's persistent sales of Reverse Councils in the year 1920, to the extent of about £50 million, in the face of public protests and in pursuance of an ill-advised determination to work up to and maintain an impossible rate of exchange, encouraged incredible speculation in sterling remittances and involved the country in heavy losses on its funds accumulated in London. The policy had at length to be abandoned and exchange had per force to be left to itself. The legal rate is now 24d gold but the market rate has long stood in the neighbourhood of 16d sterling. Government has stayed its hand and is waiting for the trade balance to take a favourable turn and for the exchange to go up once more.

The position of India with reference to public debt, permanent, temporary and floating, has, of course, deteriorated since the outbreak of the War. The loans which were floated during the time of the War for meeting the gift to England of 150 crores and for financing the annual deficits and also the treasury

* These losses are extremely obscure and are scattered over a large variety of items. For some information on this point, see Report of the Controller of the Currency for 1920–21, Pages 26, 27.

bills issued to the public and to the Paper Currency Reserve, constitute a pretty large liability, and the problem of paying off the loans as they fall due or of funding them, in the most suitable way, is one that will tax the ingenuity of the Finance Member to the utmost. Apart from the total amount of the treasury bills the dimensions of which have reached rather excessive proportions, the Hon'ble Mr. Hailey told the Legislative Assembly in September last that the aggregate liabilities due to maturing loans up to and including 1931-32, total 131 crores. This figure does not obviously include railway and other loans. Interest on "ordinary" debt alone is put down in the current year's budget at Rs. 8·73 crores.

Taking central and provincial finance as a whole, he will be a bold man who will say that the position is satisfactory and that the prospect is cheerful. It will be poor comfort for one to be told that things are much worse in other countries. The Provinces are in a sad predicament. They are endowed with larger and predominantly popular legislative councils and enjoy the long-denied privilege of self-taxation and independent borrowing. But some of them are on the verge of bankruptcy and must levy additional taxation even to meet the normal needs of administration though provincial borrowing has been started for finaning developments in Bombay and the U.Ps.. What the new taxes should be and how the 'responsible' ministers should finance the most urgent reforms which are being pressed on them, are matters the most difficult to decide. Taxes on amusements and luxuries, succession duties, an additional cess

on the land revenue and enhanced stamp duties have been suggested. At the same time, the Madras Council has passed a resolution in favour of a permanent settlement of the land revenue. This last proposal may certainly be adopted if it is accompanied by a local tax on incomes and on inheritances. It is mainly in the Provinces that reforms which touch the well-being of the people directly and most intimately, will have to be undertaken and it is precisely there that the financial position is the weakest. It is also the provincial sources of revenue which are the least productive and elastic.

The position of the central government is not, however, more reassuring at the moment. All indications point to the certainty of a considerable deficit in the treasury of the Government of India at the close of the current year. For the coming year, an improvement in the general economic condition will make all the difference between equilibrium and a deficit. Taxation has reached such a high level already that any addition to it will be nothing but cruelty to the tax-payer. By screwing up the rate of the income tax, by adding a few annas to the salt tax or by enhancing the surcharge on railway goods traffic, a few crores may be obtained. But this must be religiously avoided. The tax-payer is impatiently looking forward to the time when some of his present burdens may be taken off. Eighteen crores of additional taxation in a single year, is a financial feat that breaks all record in this country, and that patient animal, the tax-payer

ought at least to be let alone if his burden can not be immediately lightened.

It is now high time that attention were seriously turned to retrenchment and economy. An advocate of these is usually confronted with a non possumus and is pitied as an ignoramus if he is not ridiculed as a crank. All suggestions about the cutting down of civil and military expenditure are met from the responsible official side with a shaking of the head or a shrug of the shoulder. There was, for instance, a prolonged and animated debate last year in the Assembly regarding military expenditure. While almost every member from the non-official benches eloquently pleaded for a reduction of the Army charges, the official spokesmen replied by asserting that the military grant was the minimum provided consistently with safety. Practically the same story is told about civil expenditure. It is, however, impossible to believe that there is no room for economy and retrenchment in either, and we feel convinced that an earnest effort in this direction will bear abundant fruit. The virtue of thrift is not only for individual practice, and Governments are not above learning it. Only strong outside pressure, however, untiringly exercised upon the Government, can have any measurable effect upon expenditure. Even the defence of Treasury control is helpless against the raids of the spending departments which are peculiarly skilful in drawing more and more from the national exchequer.

There was a time when an income tax was regarded as an impossibility in India on account

of the poverty, the pitiable resourcelessness and the wretched simplicity of the people, and it was believed that the Indian Finance Minister had no scope for the exercise of his financial ingenuity, skill and capacity.* To-day he can add crores to his resources, both revenue and capital. with an case that were beyond the wildest dreams of a Wilson or a Laing. This augmentation of financial power must, however, be used with the strictest caution and the greatest hesitation. It must be borne in mind that whether it is the central or the provincial government that imposes a tax, it is the same people who have to bear the burden. Extreme care is, again, especially demanded of a government which is still looked upon as foreign and is not subject to effective popular control. Heavy financial burdens are more bearable when they are imposed by and benefit one's own countrymen and the taxes contributed remain in the country to fructify in the people's pockets. This factor is lacking in the present administration [illegible] and the fact must always be remembered by those who

* "When the millions live entirely on the produce of their rice fields, with only a rag about their middle and a few brass pots for their household goods, there is no very extensive field for the display of financial ingenuity"—J. W. Kay: "Administration of the East India Company."

"The salt, customs, excise, and opium are all indirect taxes on Hindoos or Chinese, which we may levy without serious resistance. But direct taxes are out of our power. Attempt to levy an income-tax and there would be a resistance such as few Governments have experienced in Europe. The abstinence from direct taxation is the great secret of our power in India.—Campbell: "Modrn India and its Government."

are in charge of financial management and control, as it is calculated to account for the apparent failure of the critics of Government to appreciate its point of view and to understand its difficulties, and explains the supposed stupidity of the people in opposing what is regarded as necessary and beneficial expenditure. The need of financial statesmanship is as great to-day as it was in the time of Mr. Wilson, and the fundamental principles underlying it remain substantially the same, notwithstanding the important changes which have admittedly taken place in the country since then.

We add three statements with a view to bring out the recent financial position:—

I

Aggregate Revenue and Expenditure of the Central and Provincial Governments.

On the old system of Accounts and on the basis of £ 1=Rs. 15

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	Accounts, 1919–20	Budget Estimate, 1920–21	Revised Estimate, 1920–21
Revenue (Imperial)	135,26,48,797	131,69,30,000	135,10,35,000
Revenue (Provincial)	60,34,61,527	62,84,96,000	70,63,80,000
Revenue (Total)	195,61,10,324	194,54,26,000	205,74,15,000
Expenditure (Total)	219,26,39,149	192,73,01,000	218,67,41,000
Surplus (+) or Deficit (–)	–23,65,28,825	+ 1,81,25,000	–12,93,26,000

II

Central Government.

On the new system of Accounts. Figures for 1919–20 and 1920–21 have been recast for the sake of convenience of comparison.

Revenue.	Accounts 1919–20	Revised Estimate, 1920–21	Budget Estimate, 1921–22
Principal Heads of Revenue	Rs.	Rs.	Rs.
Customs	21,46,69,935	32,37,80,000	37,73,28,000
Taxes on Income	22,43,41,180	19,77,78,000	18,58,07,000
Salt	5,70,83,914	6,14,93,000	7,00,66,000
Opium	4,55,61,793	3,62,31,000	3,72,85,000
Other Heads	2,28,51,068	2,34,01,000	2,44,80,000
Total Principal Heads.	56,45,07,890	64,26,83,090	69,49,66,000
Railway: Net Receipts.	31,76,99,344	25,69,32,000	27,22,63,000
Irrigation: Net Receipts.	4,77,574	4,23,000	4,24,000
Posts and Telegraphs: Net Receipts.	2,95,81,944	1,68.64,000	2,08,74,000
Debt Services.	4,22,99,265	3,74,30,000	3,49,09,000
Civil Administration.	62,16,507	75,08,000	76,35,000
Currency, Mint and Exchange.	5,74,59,369	2,86,06,000	49,73,000
Buildings, Roads &c.	10,04,444	11,42,000	10,38,007
Miscellaneous.	1,74,58,075	2,13,00,000	7,52,76,000
Military Receipts.	3,90,52,245	3,37,02,000	4,11,10,000
Contributions and Assignments by Prov. Govts.	9,83,00,000	9,83,00,000	12,93,75,000
Total Revenue	117,37,26,657	114,48,90,000	128,31,43,000
Deficit	20,81,89,830	20,45,79,000	
Total	138,19,16,487	134,94,69,000	128,31,43,000

III

Central Government,

Expenditure.	Accounts, 1919–20.	Revised Estimate, 1920-21.	Budget Estimate, 1921-22
	Rs.	Rs.	Rs.
Direct Demands on the Revenue	3,50.93.737	2,90,86,000	4,93,51,000
Railways: Interest and Miscellaneous Charges	17,95,97,900	21,13,94,000	23,17,13,000
Irrigation	18,18,368	11,93,000	11,76,000
Posts and Telegraphs : Capital Account	60,13.961	1,73.40 000	98,02,000
Debt Services	13,58.92,647	13,77,38,000	13,08,61,000
Civil Administration	8,00,04,303	9,18,96.000	8,48,18,000
Currency, Mint and Exchange	96,50,031	3,77,66,000	4,18.80,000
Buildings, Roads &c.	1,49,89,301	1,78,15,000	1,51,11,000
Miscellaneous	3,99,99,390	4,52,34,300	4,24,37,000
Military Services	87,25,32.343	74,36.79,000	66,31,10,000
Total Expenditure Charged to Revenue	138,19,16,487	134,94,69,000	127,60,43,000
Surplus	...	...	71,00,000
Total	138,19.16,487	134,94 69,000	128,31,43,000

A comparison of the above statements of revenue and expenditure with those pertaining to the first year of the post-Mutiny period given in a preceding Chapter,* will not fail to be instructive. In the first place, land revenue no longer occupies the predominant position among items of State income as it at one time did. That tax is practically stationary in its

* Pages 26–27.

productiveness, and the question of its universal permanent limitation is coming to the front. This is only a revival of a scheme which Government itself favoured sixty years ago and which can be urged on stronger grounds to-day than it could be at that time. Secondly, opium is not now the nightmare that used to trouble the sleep of Finance Members owing to the uncertainty of its revenue, and is relegated to an utterly subordinate position. Thirdly, customs and excise have, on the other hand, grown into unexpected importance. The former of these is bound to be more and more a specially productive and a reliable source of Government revenue as it is through that indirect tax that important classes in the community can be effectively reached in their capacity as consumers. As to Abkaree, its productiveness has been described as an unmistakable sign of growing prosperity of the mass of the population, and along with the land tax, it has become an indispensable part of provincial income. But drink revenue has always been most unpopular in India, and the demand for prohibition is growing in volume and intensity throughout the country. A reduction of excise revenue will make a big hole in the provincial purse scantily filled as it is, and we have immediately to face the problem of reconciling the state of the Government treasury with the needs of moral and social improvement.

Apart from the question of Protection, revenue from customs must steadily increase. Consumption of foreign goods is on a steadily rising scale, and the

extension of railways and the rapid improvement of the means of transport in the interior of the country, will make the yield of import and export duties larger though it may receive a temporary setback owing to a fall in values. The theory of free trade has had to give way before the inexorable logic of the requirements of the national exchequer, and the fiscal policy of the country must, in the future, be determined by considerations of revenue and of the interests of indigenous industries. Taxes on necessaries of life, for instance, through the freight tax on railway goods traffic, may be justified by the present abnormal financial conditions, but they will have soon to go or have to be materially reduced. This observation applies to the tax on salt, and the position of this source of central revenue, must be reconsidered. Enhanced postal rates come in the same category, and no profit as such ought to be expected by the State from such services rendered to the public, though they may be commercial in their nature.

Fourthly, the financial success of the taxes on incomes, reflects the striking change which has come over the economic organization of the country during the last decade or two. The development of large industrial and commercial concerns and the steady increase in the number and the size of incomes of individuals and firms, has facilitated the growth of the Income Tax to the decided benefit of the public treasury. The aggregate number of assessees indeed bears a small ratio to the total population, and the bulk of the tax is collected from a fraction of the whole. But the total

amount of income brought under assessment and the total yield of the tax, show a phenomenal improvement when compared with what these were during the operation of Mr. Wilson's Income Tax. It must not, however, be forgotten that a major portion of the tax is collected in the few big commercial and industrial cities that India has, and that the population as a whole is too poor to be subjected to its pressure. The Income Tax is, however, one of our best taxes to-day and must be carefully developed and skilfully manipulated.

Fifthly, when all is said and done, it can not be denied that the finance of India is the finance of a poor country slowly emerging from a mainly agricultural economy into one increasingly industrial. It is, therefore, in a state of transition, and exhibits features which are peculiar to both stages. The requirements of modern systems of administration and defence which have been established in the country, are putting too severe a strain upon the limited resources of the population in great part, poor, ignorant and conservative, and the Government is not in sympathetic touch with the mind of the people. The country wants railways, irrigation, industrial development, mass education, scientific agriculture, better public health, improved water supply and decent housing. Little money can be raised from purely local sources and from the rural population. Good finance is both the cause and the effect of social and economic improvement. The resources of the country must, therefore, be so utilised and its finances so managed as to make them go the farthest. Its rail-

ways, canals, forests, water power, minerals, soil fertility and man power have to be developed and improved with the aid of a suitable system of finance. Funds borrowed or raised by means of taxes for being devoted to these objects of public utility, are a kind of investment that will yield a plentiful harvest to coming generations.

Lastly, the problem, in a nutshell, is to exploit the country's resources economically, systematically and efficiently. The success of the undertaking will depend upon the confidence Government's measures will inspire in the mind of the public and upon the degree of harmony that will subsist between financial policy and popular needs, demands and aspirations. A vast country, endowed with a varied climate and abundant natural gifts; a population to be counted in tens of millions and skilful industrious, patient and God-fearing; a civilization with a continuous and eventful history reaching into hoary antiquity; a culture, religious, literary, philosophical and spiritual but withal practical and adaptable; and a government, modern, liberty-loving and a progressive. With such a combination, why should India not make a rapid advance in power and prosperity? Lively imagination, wise statesmanship and genuine love of freedom for all, must inspire the administration of affairs, and upon these depends the success of the management of the finances as much as that of the other departments of the nation's life.

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